



## Summary Analysis of Amended Bill

Author: Santiago

Sponsor:

Bill Number: AB 1942

Analyst: Davi Milam

Phone: (916) 845-2551

Amended: April 11, 2018

Attorney: Bruce Langston

Related Bills: See Prior Analysis

**Subject:** Earned Income Refundable Credit/ Franchise Tax Board Revise Form 540 & Form 540 2EZ to Include Information Related to the California Earned Income Tax Credit/ Earned Income Tax Credit Information Act

### Summary

This bill, under the Administration of Franchise and Income Tax Laws (AFITL), would do the following:

Provision No.1: Require the Franchise Tax Board (FTB) to revise personal income tax returns, related to the California Earned Income Tax Credit (California EITC).

Provision No.2: Amend *The Earned Income Tax Credit (EITC) Information Act*.

This analysis only addresses those provisions of the bill that would impact the department's operations.

**Recommendation – No position.**

### Summary of Amendments

The April 11, 2018, amendments proposed additional revisions to specified personal income tax forms, and made other changes to *The EITC Information Act*.

As a result of the amendments, two of the department's implementation concerns discussed in the department's analysis of the bill as introduced January 29, 2018, were resolved, and one additional implementation concern, two technical concerns, and one policy concern were identified. Except for the "This Bill," "Implementation Considerations," "Technical Considerations," and "Policy Concerns" sections, the remainder of the department's analysis of the bill as introduced on January 29, 2018, still applies. The "Fiscal Impact" and "Economic Impact" sections have been restated below for convenience.

**Provision No.1: Require the FTB to revise personal income tax returns, related to the California EITC.**

This provision, under the AFITL, would require the FTB to do the following:

- Revise line 75 on the Form 540 to include the following language: “Must complete Franchise Tax Board Form 3514. See Instructions.”
- Revise the Form 540 2EZ to attach the Form 3514 to the end of the Form 540 2EZ.

**Implementation Considerations**

Department staff has identified the following implementation considerations for purposes of a high-level discussion; additional concerns may be identified as the bill moves through the legislative process. Department staff is available to work with the author’s office to resolve these and other concerns that may be identified.

Implementing this provision would require substantial changes to the Form 540 2EZ and instructions and information systems. The Form 540 2EZ would increase by at least two pages to “attach” the Form 3514 *California Earned Income Tax Credit*, and the Form 540 2EZ instructions would likely be increased several pages to incorporate the instructions for Form 3514.

The required revisions would apply only to the Forms 540 and 540 2EZ. If the author intends to revise all personal income tax forms on which the California EITC may be claimed, this provision should be amended.

This provision is silent on the applicable taxable years the revision would apply. To alleviate this concern, the author may wish to specify that this provision would apply to personal income tax returns required to be filed for taxable years beginning on or after January 1, 2019.

**Technical Considerations**

In subdivision (a), the phrase “Franchise Tax Board Form 3514” should be replaced with “Form FTB 3514” to correctly identify the form used to claim the California EITC.

Additionally, the phrase “Line 75 of the” should be replaced with “the line for the California EITC on” due to the potential for future changes to form line numbers.

**Fiscal Impact**

The department’s costs to implement this provision have yet to be determined, but are anticipated to be significant. 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 provision would not impact state income or franchise tax revenue.

**Provision No. 2: Amend *The EITC Information Act*.**

This provision would amend *The EITC Information Act* by:

- Adding the *State Department of Social Services: California Work Opportunity and Responsibility to Kids (CalWORKs)* program to the list of agencies that must provide benefit recipients with formal notification regarding possible eligibility for the federal EITC and the California EITC.
- Requiring state departments and agencies that serve those who may qualify for the federal EITC and the California EITC to provide their program recipients who may be eligible for the federal and the California EITC with both of the following:
  - The Internet Web site address to the Form 540 2EZ.
  - A physical paper copy of the Form 540 2EZ.

**Implementation Considerations**

Implementing this provision would not significantly impact the department's programs and operations.

**Fiscal Impact**

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

**Economic Impact**

Revenue Estimate

This provision would not impact state income or franchise tax revenue.

**Policy Concerns**

*The EITC Information Act* currently requires departments and state agencies that serve those who may qualify for the federal and state EITC to provide information on claiming the California EITC including the FTB's website ([www.ftb.ca.gov](http://www.ftb.ca.gov)) where all personal income tax returns and the Form FTB 3514 may be accessed. Thus, Provision 2 would create a substantially similar notification requirement (Page 4, paragraph (2) of subdivision (b)) for such state departments and agencies, and could result in taxpayers claiming the California EITC on the incorrect income tax return.

**Legislative Staff Contact**

Davi Milam  
Legislative Analyst, FTB  
(916) 845-2551  
[davi.milam@ftb.ca.gov](mailto:davi.milam@ftb.ca.gov)

Jame Eiserman  
Revenue Manager, FTB  
(916) 845-7484  
[jame.eiserman@ftb.ca.gov](mailto:jame.eiserman@ftb.ca.gov)

Diane Deatherage  
Legislative Director, FTB  
(916) 845-6333  
[diane.deatherage@ftb.ca.gov](mailto:diane.deatherage@ftb.ca.gov)