



## Summary Analysis of Amended Bill

Author: Stone, et al.

Sponsor:

Bill Number: AB 2066

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Amended: May 15, 2018

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Related Bills: See Prior Analysis

**Subject:** Earned Income Refundable Credit/Allow to Individuals who are Age 18 and older/  
Allow to Individuals with Federal Individual Taxpayer Identification Numbers (ITIN)

### Summary

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

### Recommendation – No position.

### Summary of Amendments

The May 15, 2018, amendments added coauthors and modified the operative dates for the changes proposed by this bill.

As a result of the amendments, one of the department's implementation concerns discussed in the department's analysis of the bill as amended March 19, 2018, was resolved. Except for the "Effective/Operative Date," "This Bill," "Implementation Considerations," and "Economic Impact" sections, the remainder of the department's analysis of the bill as amended March 19, 2018, still applies. The "Fiscal Impact" and "Policy Concerns" sections have been restated below for convenience. The "Support/Opposition" section has been updated to reflect recently updated information.

### Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment, and would be specifically operative for each taxable year beginning on or after January 1, 2019.

### This Bill

For each taxable year beginning on or after January 1, 2019, this bill, under the PITL, would modify the California EITC by:

- Revising the age limit for an eligible individual without a qualifying child to 18 years or older, rather than between the ages of 25 and 64 years.<sup>1</sup>

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<sup>1</sup> The eligible individual must not have attained age 65 before the close of the taxable year.

- Modifying the requirement that eligible individuals and qualifying children must have an SSN to claim the California EITC by allowing either a federal ITIN or an SSN without regard to being valid for employment.

Additionally, for each taxable year beginning on or after January 1, 2019, this bill would provide that any excess credit resulting from the changes proposed by this bill be credited against other amounts due, if any, and the balance, if any, upon appropriation by the Legislature, would be paid from the Tax Relief and Refund Account and refunded to the taxpayer.

### **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.

This bill would create overlapping age ranges for a qualifying child and an eligible individual without a qualifying child, thus increasing the likelihood for improper claims caused by an individual being a qualifying child for another person. For example, a student under age 24 would also meet the age requirement for an eligible individual without a qualifying child and may claim a California EITC when they are also reported as a qualifying child for the California EITC on their parents' return.

This bill, by allowing federal ITINs, would significantly expand eligibility for the California EITC beyond federal eligibility, thus requiring the department to expand its efforts to identify and deny improper claims.

Absent an SSN, the department would be unable to accurately match or verify the taxpayer-reported wage and withholding information with employer-reported wages to the Employee Development Department, increasing the likelihood of improper claims.

It is unclear how the department would administer the appropriation provision that would be added by this bill. During return processing, the department would be unable to identify those refunds that are attributable to the changes proposed by this bill. The department would hold the refund returns to determine whether the appropriation would be sufficient. The delay in holding returns may increase costs related to interest if refunds are not timely paid. Disallowance of the credit to some taxpayers could result if the amount of credits claimed exceeds the amount of appropriated funds.

### **Fiscal Impact**

The department's costs to implement this bill 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 bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2066 as Amended May 15, 2018  
Assumed Enactment after June 30, 2018

(\$ in Millions)

| <b>Fiscal Year</b> | <b>Revenue</b> |
|--------------------|----------------|
| <b>2018-2019</b>   | \$0            |
| <b>2019-2020</b>   | - \$90         |
| <b>2020-2021</b>   | - \$90         |

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

### Revenue Discussion

Based on output from the Franchise Tax Board's California EITC micro-simulation model comparing current law and proposed law model results, it is estimated that in taxable year 2019, expanding the California EITC to taxpayers with federal ITINs, taxpayers between the age of 18 and 25 with no qualified dependents, and taxpayers older than 65 years old with no qualified dependents would result in a \$90 million revenue loss.

The tax-year estimates are converted to fiscal-year estimates and then rounded to arrive at the amounts in the above table.

### Support/Opposition<sup>2</sup>

Support: United Ways of California (Co-Sponsor), CalEITC4Me/Golden State Opportunity Fund (Co-Sponsor), Children's Defense Fund (Co-Sponsor), California Immigrant Policy Center (Co-Sponsor), 4Cs of Alameda County, Advokids, Alameda County Community Food Bank, Alliance for Children's Rights, American Academy of Pediatrics, California, A New Path, Asian Americans Advancing Justice, Asset Building Strategies, Building Healthy Communities Long Beach, CalEITC4Me, California Asset Building Coalition, California Association of Food Banks, California Association of Public Authorities for IHSS, California Food Policy Advocates, California Latinas for Reproductive Justice, California Partnership, California School-Based Health Alliance, Child Care Alliance of Los Angeles, Children Now, Children's Law Center of California, Clinica Monsenor Oscar A. Romero Community Health Centers, Community Health Councils, County Behavioral Health Directors Association of California, Courage Campaign, Downtown Women's Center, EARN, Ensuring Opportunity Campaign to End Poverty in Contra

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<sup>2</sup> As noted in the Assembly Revenue and Taxation Committee analysis, dated May 4, 2018.

Costa, Family Economic Security Partnership – Contra Costa, First 5 Marin, First 5 Santa Clara County, First Place for Youth, Food Bank of Humboldt County, Fremont Family Resource Center VITA Program, GRACE Ministry, Habitat for Humanity California, Having Our Say Coalition, John Burton Advocates for Youth, Justice in Aging, Kids in Common, Kitchens for Good, Mi Familia Vota, Multi-faith ACTION Coalition, National Association of Social Workers, California Chapter New Door Ventures, NextGen California, Northeast Community Federal Credit Union, One Treasure Island, Planting Justice, Prosperity Now, Rise Together, Riverside Temple Beth El, Roberts Enterprise Development Fund, Self-Help Federal Credit Union, Services, Immigrant Rights & Education Network, SHIELDS for Families, Sparkpoint Marin, Success in Challenges, Inc., The Rock Found, United Ways of Bay Area; Fresno, Madera, and Stanislaus Counties; Orange County; and Wine Country, United Way Monterey County, United Way of Santa Cruz, United Way Ventura, Unity Council, University of California, Hastings College of Law Externships and Pro Bono Programs, Women's Building, Young Invincibles, 2 Individuals.

Opposition: None noted.

### **Policy Concerns**

This bill would create differences between federal and California eligibility rules for the California EITC, thereby increasing the complexity of California tax return preparation.

The department is concerned that the proposed use of federal ITINs could lead to an increase in improper claims and payments.

### **Legislative Staff Contact**

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