

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Caballero, et al. Analyst: Davi Milam Bill Number: AB 225  
Related Bills: See Prior Telephone: 845-2551 Amended Date March 20, 2017  
Analysis Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** Earned Income Refundable Credit/ Increase Earned Income Threshold

**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 20, 2017, amendments add an author and provide for the postponement of the increased earned income and phaseout amount tables should a scheduled minimum wage increase be temporarily suspended. As a result, the amendments created two implementation considerations and a technical consideration.

As a result of the amendments, the “This Bill,” “Implementation Considerations,” and “Technical Considerations” sections have been revised, and the “Economic Impact” section has been updated to reflect an assumption relevant to the revenue estimate. The “Support/Opposition” section has been updated to reflect current information. The remainder of the department’s analysis of the bill as amended on March 6, 2017, still applies. The “Fiscal Impact” section has been restated below for convenience.

**THIS BILL**

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

Additionally, this bill would specify that for any taxable year during which the Governor suspends a statutorily scheduled minimum wage increase, the prior taxable year’s earned income and phaseout amount table would apply and the operative dates for the tables for subsequent taxable years would be postponed by one year.

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.<sup>1</sup> 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 <sup>2</sup>	\$10,854	\$11,842	\$12,828	\$13,814	\$14,802
1 qualifying child	\$15,558 <sup>3</sup>	\$16,298	\$17,780	\$19,262	\$20,744	\$22,224
2 or more qualifying children	\$21,840 <sup>4</sup>	\$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.<sup>5</sup>
- 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.

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<sup>1</sup> 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](https://www.gov.ca.gov/docs/Fact_Sheet_Boosting_Californias_Minimum_Wage.pdf)

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

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

<sup>4</sup> 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).

<sup>5</sup> 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.

## IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

Should the Governor suspend the minimum wage increase for two consecutive years, it is unclear which earned income amount and phaseout amount table would apply the second year. For example, if the scheduled minimum wage increase was suspended for 2018 and 2019, would the statutory table for tax year 2018 or the table actually used for tax year 2018 apply for tax year 2019? To ensure consistency with the author's intent, it is recommended that the bill be amended.

The bill's indexing provision lacks a postponement trigger similar to the postponement of the earned income and phaseout amount table. To ensure the timing of the indexing provision is consistent with any postponement of the increase in the earned income and phaseout amounts table, the author may wish to amend the bill.

## TECHNICAL CONSIDERATIONS

The scheduled minimum wage increases under the Labor Code and the Governor's authorization to suspend those increases are specified for calendar years, rather than taxable years. The bill lacks language that would provide consistency between fiscal-year filers and calendar-year filers should a scheduled minimum wage increase be suspended during a calendar year. To resolve this inconsistency, it is recommended that clause (vii) of paragraph (2) of subdivision (b) be amended.

## 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 20, 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-in, 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 that 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. As the FTB is unable to predict if or when a suspension of the statutorily scheduled minimum wage increases might occur, this estimate assumes there will be no suspension of the scheduled minimum wage increases.

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

## SUPPORT/OPPOSITION<sup>6</sup>

Support: Fiona Ma, State Board of Equalization Member, Second District (Sponsor), Alameda County Community Food Bank, California Association of Food Banks, California Catholic Conference, California Tax Reform Association, Children's Defense Fund – California Friends Committee on Legislation of California, Golden State Opportunity, and United Ways of California.

Opposition: None noted.

## LEGISLATIVE STAFF CONTACT

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<sup>6</sup> As shown in the Assembly Revenue and Taxation Committee analysis dated March 10, 2017.