

## ANALYSIS OF AMENDED BILL

Author: Steinorth, et al. Analyst: Davi Milam Bill Number: AB 75  
Related Bills: See Legislative History Telephone: 845-2551 Amended Date: March 6, 2017  
Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** Earned Income Refundable Credit/ Expand to Self-Employed

### SUMMARY

The bill would modify the California Earned Income Tax Credit (California EITC).

### RECOMMENDATION – NO POSITION

#### Summary of Amendments

The March 6, 2017, amendments added coauthors, modified the operative date, and made other technical changes. As a result, the amendments resolved the implementation consideration and the policy concern discussed in the department’s analysis of the bill as introduced January 4, 2017.

Except for the “Effective/Operative Date,” “This Bill,” “Implementation Considerations,” “Economic Impact,” and “Policy Concerns” sections, the department’s analysis of the bill as introduced on January 4, 2017, still applies. The “Program Background” and “Fiscal Impact” sections have been restated below for convenience.

#### EFFECTIVE/OPERATIVE DATE

As an urgency measure, this bill would be effective immediately upon enactment, and specifically operative for taxable years beginning on or after January 1, 2017.

#### THIS BILL

For taxable years beginning on or after January 1, 2017, this bill would, under the Personal Income Tax Law, modify the California EITC by including, in the definition of earned income, the amount of the taxpayer’s “reportable gross income from self-employment” for the taxable year.

“Reportable gross income from self-employment” would mean gross income derived by an individual from any trade or business carried on by such individual that is properly reported to the Secretary of Treasury on an information return for the taxable year and reported on a written statement furnished to that individual as required under federal law.

This bill also would, for taxable years beginning on or after January 1, 2017, permanently set the California EITC adjustment factor at 85 percent rather than zero.

## PROGRAM BACKGROUND

### *Franchise Tax Board (FTB) Report*

On April 27, 2016, as required by the Supplemental Report of the 2015-16 Budget Package, the FTB issued the report, "Expansion of the California EITC to Include Self-Employment Income." The report discusses EITC improper claims and provides a summary of the methods that could be considered to allow SE income to be included as earned income while protecting against improper payments.<sup>1</sup>

## IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require changes to existing tax forms and instructions and information systems.

## 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 75 As Amended March 6, 2017 Assumed Enactment After June 30, 2017 (\$ in Millions)		
2017-18	2018-19	2019-20
- \$12	- \$13	- \$13

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 adjusted gross income which were adjusted

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<sup>1</sup> <https://www.ftb.ca.gov/aboutftb/EITCReportToBudgetCommittee.pdf>

back to 2014 for changes in the California Consumer Price Index. Taxpayer California EITC eligibility and amounts were calculated twice: once for current law and a second time which includes reportable gross income from self-employment as reported on form 1099-MISC as part of the earned income qualifications. The difference in the two calculations is the net impact of the California EITC expansion to include income reported on the federal 1099-MISC. The 2017 estimated revenue loss from the expansion of the California EITC to include reportable gross income from self-employment is expected to be \$12 million. Results were then adjusted to reflect changes in the economy over time.

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

### **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)