



## Summary Analysis of Amended Bill

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Sponsor:

Bill Number: SB 26

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Amended: March 18, 2019

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Related Bills: See Prior Analysis

**Subject:** Child & Dependent Care Expenses Credit/Refundable

### Summary

This bill would, under the Personal Income Tax Law (PITL), make the Child and Dependent Care Expenses Credit refundable.

**Recommendation – No position.**

### Summary of Amendments

The March 18, 2019, amendments removed the refund cap, replaced the conditional appropriation with a continuous appropriation, and made a number of nonsubstantive technical changes.

As a result of the amendments, two of the department's implementation considerations and all of the technical considerations identified in the department's analysis of the bill as introduced on December 3, 2018, were resolved. Except for the "This Bill," "Implementation Considerations," "Technical Considerations," and "Economic Impact" sections, the remainder of the department's analysis of the bill as introduced December 3, 2018, still applies.

The "Fiscal Impact" and "Policy Concerns" sections have been restated for convenience.

### Effective/Operative Date

This bill would be effective immediately upon enactment, and specifically operative for taxable years beginning on or after January 1, 2020, and before January 1, 2025.

### This Bill

For taxable years beginning on or after January 1, 2020, and before January 1, 2025, this bill, under the PITL, would provide that if the amount of allowable Child and Dependent Care Expenses Credit exceeds the tax liability for the taxable year, the excess would be credited against other amounts due, if any, and the balance, if any, would be paid from the Tax Relief and Refund Account and refunded to the taxpayer.

## Implementation Considerations

Implementing this bill would require changes to existing tax forms and instructions, robust education and outreach, and substantial changes to information systems to limit improper payments.

## 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.

## Economic Impact

### Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 26 as Amended March 18, 2019  
Assumed Enactment after June 30, 2019

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2019-2020	-\$60
2020-2021	-\$100
2021-2022	-\$100

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

Using Child and Dependent Care Credit data from the Franchise Tax Board (FTB), it is estimated that California taxpayers would report approximately \$33 million in non-refundable child and dependent care expenses credit in taxable year 2020. Under current law, the amount of credit each taxpayer can use is limited by their tax liability. However, this bill would allow a refund of the credit in excess of the taxpayer's tax liability. The approximate amount of credit claimed would be \$133 million in taxable year 2020. This amount is then reduced by the amount of credit currently claimed. This results in an estimated revenue loss from the refundable credit of \$100 million for taxable year 2020.

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

### **Policy Concerns**

The department is concerned that another refundable credit could increase the trend in refund fraud and identity theft. Historically, both the Internal Revenue Service and the FTB have experienced fraud and improper claims with refundable credits. These concerns are heightened because if a refund is determined to be fraudulent, the refund commonly cannot be recovered.

### **Legislative Staff Contact**

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