



## Bill Analysis

Author: Santiago

Sponsor:

Bill Number: AB 1515

Related Bills: See Legislative  
History

Amended: May 26, 2022, &  
August 1, 2022

### SUBJECT

Outreach, Education, and Free Tax Assistance Grant Program

### SUMMARY

This bill, under the Revenue and Taxation Code (RTC), would establish the Outreach, Education, and Free Tax Assistance Grant Program (Grant Program) and would authorize the Franchise Tax Board (FTB), upon appropriation by the Legislature, to allocate grants to qualified nonprofit community-based organizations or local government agencies with the goal of increasing the number of eligible taxpayers claiming the California Earned Income Tax Credit (CalEITC) and federal Earned Income Tax Credit (EITC), federal Child Tax Credit (CTC), the Young Child Tax Credit (YCTC), and the Foster Youth Tax Credit (FYTC).

### RECOMMENDATION

No position.

### SUMMARY OF AMENDMENTS

The May 26, 2022, amendments renamed the Grant Program, set the grant period to at least a 12-month period, removed all references to the Golden State Stimulus, added reference to the federal CTC, and the FYTC, specified the goal of the grant program is to increase the number of eligible taxpayers claiming the specified tax credits, changed FTB responsibility to prioritize funding, as specified, and to develop metrics to analyze the effectiveness of the grant program, authorize the FTB Executive Officer's designee to award grants, updated the intent language, modified the reporting requirements, and made technical and other nonsubstantive changes.

The August 1, 2022, amendments clarified the FTB may adopt regulations necessary and appropriate to carry out the grant program, removed the FTB requirement to prioritize funding, clarified funds are for education and outreach, removed the provision that would have exempted the grants from the State Contract Act and updated the FTB annual reporting due date.

Amended May 26, 2022, and August 1, 2022

## **REASON FOR THE BILL**

The reason for this bill is to increase outreach, education, and free tax assistance so that more Californians are able to obtain available credits.

## **ANALYSIS**

This bill, under the RTC, would establish the Grant Program, and in the State Treasury, would establish the Outreach, Education, and Free Tax Assistance Grant Fund.

Upon appropriation by the Legislature, the FTB would be required to allocate grants that cover at least a 12-month period to qualified nonprofit community-based organizations or local government agencies with the goal of increasing the number of eligible households claiming the CalEITC and federal EITC, the federal CTC, the YCTC and the FYTC and to increase awareness of federal taxpayer identification number (ITIN) tax status eligibility.

The FTB would be required to allocate funding for the following purposes:

- Education and outreach for the CalEITC, federal EITC, YCTC, FYTC and for awareness of ITIN eligibility.
- To community-based organization partners with demonstrated experience in outreach or free tax preparation.
- To organizations with prior experience with the Volunteer Income Tax Assistance (VITA) program to provide free tax preparation assistance and ITIN application assistance.
- Focus funding in regions of the state with low participation in the CalEITC relative to the estimated eligible population in that area.
- Focus funding in regions of the state with estimated high percentages of ITIN filers and ITIN eligible workers who do not have a current ITIN status.
- Emphasize collaboration of grantees with other community-based organizations and local government agencies.
- Encourage targeting of specific underserved communities, particularly those that experience barriers to taking advantage of the credit, with a focus on extremely low-income households, likely ITIN eligible workers, populations with limited English proficiency, rural communities, current and former foster youth, and other hard-to-reach populations.

This bill would provide that grants allocated under the Grant Program would cover at least 12 months to ensure continuity of services.

Amended May 26, 2022, and August 1, 2022

The FTB would be authorized to do all of the following:

- Contract or administratively partner with the Department of Community Services Development to administer any provisions of the Grant Program as the FTB deems necessary.
- Adopt regulations necessary and appropriate to carry out the purposes of implementing the Grant Program in accordance with the Administrative Procedure Act.

Additionally, the FTB would be required to report to the Legislature beginning March 1, 2024, and annually thereafter, on the effectiveness of the Grant Program. The report would be submitted pursuant to Section 9795 of the Government Code. The FTB, in consultation with the Department of Community Services Development and with grantees, would be required to develop metrics to analyze the effectiveness of the program.

#### *Effective/Operative Date*

This bill would be effective January 1, 2023, and operative as of that date. However, the allocation of grants would be subject to an appropriation by the Legislature.

#### *Federal/State Law*

##### *Federal Law*

##### EITC

Existing federal law (Internal Revenue Code (IRC) section 32) allows eligible individuals a refundable EITC. A refundable credit allows for the excess of the credit over the taxpayer's tax liability to be refunded to the taxpayer. The EITC is a percentage of the taxpayer's earned income and is phased out as income increases. For 2021, the EITC is available to individuals and families earning up to \$57,414. The federal credit rate varies from 7.65 percent to 45 percent, depending on the number of qualifying children.

##### CTC

Federal law allows a CTC per qualifying child as follows:

- \$3,600 for children ages 5 and under at the end of 2021
- \$3,000 for children ages 6 through 17 at the end of 2021

The credit applies if the child is younger than 17 at the end of the tax year, has a valid Social Security Number issued before the due date of the tax return, including extensions, and the child lives with the taxpayer for more than six months of the year and can be claimed by the taxpayer as a dependent. The credit is subject to income limits.

Amended May 26, 2022, and August 1, 2022

### *State Law*

#### CalEITC

State law provides a refundable CalEITC that is generally determined in accordance with IRC section 32, as applicable for federal income tax purposes for the taxable year, except as modified.

For 2022, the CalEITC is generally available to taxpayers with earned income of \$30,000 or less.

#### YCTC

Starting in 2019, a taxpayer who has been allowed the CalEITC and who has a qualifying child younger than six years old as of the last day of the taxable year may qualify for the YCTC.

For taxable years beginning on or after January 1, 2022, an individual that is otherwise eligible for the CalEITC but has no earned income, as specified, may be eligible for the YCTC. In addition, for taxable years beginning on or after January 1, 2022, the maximum amount of the YCTC, initially set at \$1,000, will be indexed for inflation. The credit amount is phased out as a qualified taxpayer's earned income exceeds the threshold amount, initially set at \$25,000.

For taxable years beginning on or after January 1, 2023, the threshold amount will be recomputed annually in the same manner as the income tax brackets.

#### FYTC

Starting in 2022, a taxpayer who has been allowed the CalEITC, is between 18 to 25 years of age, inclusive, as of the last day of the taxable year, and was in foster care while 13 years of age or older may qualify for the FYTC. The credit amount is \$1,000, and will be adjusted for inflation. The FYTC will be phased out in the same manner as the YCTC. Foster care includes an AFDC-FC placement, including a tribally approved home, or Approved Relative Caregiver Funding Program eligible placement, by a Title IV-E agency, pursuant to a voluntary placement agreement or a juvenile court order.

### *Implementation Considerations*

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

Amended May 26, 2022, and August 1, 2022

This bill would require the FTB to report to the Legislature beginning March 1, 2024, and annually thereafter, on the "effectiveness of the program." The FTB, in consultation with the Department of Community Services and Development and with grantees, would be required to develop metrics to analyze the effectiveness of the program. Grantees currently report on how they use the grant funds to conduct outreach but the grantees have also indicated concerns with this level of tracking as time consuming and costly. Data necessary to support a study on the effectiveness of outreach would require additional tracking of detailed and specific data regarding 'who' (individual personal identifying information) received outreach and 'how' (text, letter, etc.) which is not done today. Additionally, some outreach methods such as billboards, door hangers, and flyers distributed at public events are not able to be tracked sufficiently to evaluate an outcome. To date, any study performed on outreach has suffered from the inability to match up outreach recipients with return filers.

#### *Technical Considerations*

For consistency of terminology, the following changes are recommended:

- In RTC section 19859.2(a), replace "...increasing the number of eligible households claiming..." with "...increasing the number of eligible ~~households~~ *individuals* claiming..."
- In RTC section 19859.2(b)(7) replace "...with a focus on extremely low income households, likely..." with "...with a focus on extremely low income ~~households~~ *individuals*, likely..."
- In RTC section 19859.1 (c), replace "...necessary and appropriate..." with "...necessary ~~and~~ *or* appropriate..."

#### *Policy Considerations*

None noted.

### **LEGISLATIVE HISTORY**

AB 194 (Committee on Budget, Chapter 55, Statutes of 2022) among other items this bill, under the Government Code, specifies that the Controller cannot offset delinquent accounts against personal income tax refunds of an individual who received the CalEITC or the YCTC for taxable years beginning on or after January 1, 2024.

AB 1766 (Stone, et al., 2021/2022) would, amend the Vehicle Code to require the issuance of an identification card, as specified. Additionally, under the PITL, this bill would allow the FTB to request the taxpayer to provide identifying documents acceptable for purposes of obtaining the identification card to substantiate the CalEITC. AB 1766 is currently in the Governor's Office.

Amended May 26, 2022, and August 1, 2022

AB 1863 (Irwin, 2021/2022) would require the FTB to notify potential eligible individuals of available paperless filing options offered through FTB and to include information in the notification about the CalEITC. AB 1863 is currently in the Governor's Office.

SB 154 (Skinner, Chapter 43, Statutes of 2022) among other provisions, specified that \$20 million is appropriated to the FTB (The Budget Act of 2022) for outreach to create increased awareness of, and participation in, the CalEITC and Volunteer Income Tax Assistance Program and to provide outreach to ITIN filers.

SB 201 (Committee on Budget and Fiscal Review, Chapter 72, Statutes of 2022), among other provisions, expanded the YCTC to certain individuals with no earned income, created the FYTC, and made minor changes to the CalEITC.

AB 201 (Committee on Budget, 2021/2022) would, among other provisions, expand the YCTC to certain individuals with no earned income, create the Foster Youth Tax credit, and make minor changes to the CalEITC. AB 201 did not pass out of the Senate by the constitutional deadline.

AB 1624 (Ting, 2021/2022) would, in the Budget Act of 2022, appropriate \$10 million for state outreach grants to maximize participation and claiming of the CalEITC and Golden State Stimulus, emphasizing nonprofit and community-based organizations that provide increased awareness of these programs and assist individuals with obtaining ITINs. AB 1624 was held in the Assembly Committee on Budget without further action.

AB 81 (Ting, Chapter 5, Statutes of 2021), among other changes, appropriated an additional \$5 million to existing CalEITC outreach to provide increased awareness of the GSS.

AB 1876 (Committee on Budget, Chapter 87, Statutes of 2020), modified the CalEITC by allowing all eligible individuals, eligible individuals' spouses, and qualifying children to have either a federal ITIN or SSN without regard to it being valid for employment. As a result of the expanded eligibility for the CalEITC, eligibility for the YCTC was expanded by allowing a "qualified taxpayer" and "qualifying child" to have either an SSN or federal ITIN.

SB 115 (Committee on Budget and Fiscal Review, Chapter 40, Statutes of 2020), among other provisions, specified that \$5 million appropriated to the FTB (The Budget Act of 2020) would be allocated in a manner to maximize participation and claiming of the CalEITC, emphasizing nonprofit and community-based organizations that provide increased awareness of the CalEITC.

SB 1409 (Caballero, Chapter 114, Statutes of 2019), required the FTB to analyze and develop a plan to increase the number of CalEITC claims and the federal EITC. The FTB is required to report to the Legislature by January 1, 2022, its analysis and plan.

Amended May 26, 2022, and August 1, 2022

AB 74 (Ting, Chapter 23, Statutes of 2019), among other provisions, specified that \$10 million appropriated to the FTB (The Budget Act of 2019) would be allocated in a manner that emphasizes nonprofit and community-based organizations that provide increased awareness of the CalEITC and that provide free tax preparation services.

## **PROGRAM BACKGROUND**

### Education and Outreach

As part of California's annual budget, the Legislature provides money to conduct outreach, encouraging taxpayers to claim CalEITC, and to advertise and promote low income tax preparation sites that assist taxpayers in filing CalEITC claims. The FTB partners with the Department of Community Services and Development (CSD) through an interagency agreement. CSD issues grants for CalEITC outreach to non-profits who work in low income communities. By partnering with non-profits servicing low income populations, the FTB is able to leverage existing relationships to reach the most individuals possible.

The Legislative Analyst (LAO) report "*The 2019-20 Budget: Analysis of Proposed Earned Income Tax Credit Expansion*" noted that the Legislature in 2016, 2017, and 2018, authorized funding for education and outreach by "community-based organizations and other state and local government agencies (such as school districts and county social services offices) to raise awareness about the state and federal EITC." According to the LAO report, these efforts included advertising and media outreach, distribution of printed materials, and canvassing—direct contact with individuals in targeted residential neighborhoods. Additionally, starting in 2018, grant recipients were allowed to fund tax filing assistance.

In the Budget Act of 2019, the Governor and the Legislature set aside \$10 million for state outreach grants to promote the CalEITC and to promote free tax preparation. Grantees will carry out statewide and local outreach efforts aimed at reaching eligible families.

In the Budget Act of 2020, \$5 million was appropriated for state outreach grants to maximize participation and claiming of the CalEITC, emphasizing nonprofit and community-based organizations that provide increased awareness of the CalEITC.

Additional amounts totaling \$5.1 million were appropriated during 2021 to augment CalEITC outreach to provide increased awareness of the GSS.

In the Budget Act of 2022, \$20 million was appropriated for state outreach grants to create increased awareness of, and participation in, the CalEITC and the Volunteer Income Tax Assistance Program, emphasizing nonprofit and community-based organizations that provide increased awareness of these programs and assist individuals with obtaining ITINs.

Amended May 26, 2022, and August 1, 2022

Additionally the *EITC Information Act* requires employers and specified state departments and agencies that serve those who may qualify for the EITC to provide annual notification of possible eligibility for both the federal EITC and the CalEITC.

### Free Tax Help

Free tax help is available through VITA and Tax Counseling for the Elderly (TCE). Taxpayers living in California can get free tax help from these programs to file their federal and California personal income tax returns:

- VITA, is available to taxpayers that:
  - Generally make \$58,000 or less
  - Have disabilities, or
  - Speak limited English
  - Are active duty or retired military personnel, or a dependent
- TCE is available to taxpayers over 60 years old

Additionally, CalFile, is the FTB's free online direct to government e-filing program for the California personal income tax return.

### **FISCAL IMPACT**

At this time, the department does not expect additional costs to implement the changes in this bill. However, costs could change if workload demands resulting from this program later increase.

### **ECONOMIC IMPACT**

#### *Revenue Estimate*

This bill as amended August 1, 2022, would not impact state income or franchise tax revenue.

### **LEGAL IMPACT**

None noted.

### **APPOINTMENTS**

None noted.

### **SUPPORT/OPPOSITION**

None on file.



Bill Analysis

Bill Number: AB 1515

Amended May 26, 2022, and August 1, 2022

**ARGUMENTS**

None on file.

**LEGISLATIVE CONTACT**

[FTBLegislativeServices@ftb.ca.gov](mailto:FTBLegislativeServices@ftb.ca.gov)