



Bill Analysis

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Bill Number: AB 1863

SUBJECT

CalFile: Online Tax Filing: Volunteer Income Tax Assistance

SUMMARY

This bill would require the Franchise Tax Board (FTB) to notify potential eligible individuals of available paperless filing options offered through FTB and to include information in the notification about the California Earned Income Tax Credit (CalEITC).

REASON FOR THE BILL

This bill is intended to broaden the use of free electronic filing programs and increase outreach for CalEITC.

ANALYSIS

This bill would require FTB beginning January 1, 2023, to notify potential eligible individuals of available paperless (electronic) filing options offered through FTB, including CalFile, and free tax preparation services, including the Volunteer Income Tax Assistance (VITA) Program. The notification would include information about available paperless filing options and CalEITC. The notification would be in a form and manner FTB determines would incentivize potential eligible individuals to timely file their federal and state tax returns.

This bill would allow FTB to coordinate with other government agencies and nonprofit organizations to improve the effectiveness of the notices. The bill provides that no negative inference would be drawn from a taxpayer's decision not to file using CalFile or to file under a different method.

This bill would define the following terms:

- "CalEITC" is defined as the Earned Income Tax Credit allowed under Section 17052 of the Revenue and Taxation Code.
- "Potential eligible individual" is defined as an eligible individual under the CalEITC in any of the three previous taxable years based upon information available to FTB.

On or before January 1, 2026, FTB would be required to provide a report to the Legislature that contains the following information organized by taxable years beginning on or after January 1, 2023, and before January 1, 2025:

- The cost to administer and implement the notification requirement.
- The total number of tax returns filed using paperless filing options offered through FTB, including the CalFile program.
- An analysis of the discernable efficacy and impact of the notification requirement.
- The number of returns filed using the paperless filing options offered through FTB that claimed the CalEITC.
- The estimated cost savings potential eligible individuals realized by using paperless filing options offered through FTB.

This bill would be repealed until January 1, 2027.

Effective/Operative Date

If enacted, this bill would be effective and operative beginning January 1, 2023, and would be repealed on January 1, 2027.

Federal/State Law

Federal Law

Current federal law mandates the Internal Revenue Service (IRS) to increase the percentage of returns filed electronically by taxpayers. Through the IRS Free File Program, a public-private partnership between the IRS and tax preparation and filing industry companies, there are two ways taxpayers can prepare and file their federal tax return online for free.

- Under the "Guided Tax Preparation" program, taxpayers with adjusted gross income (AGI) under \$73,000 per year, can receive free online tax preparation and file electronic returns at no cost using private vendors to meet this objective.
- Taxpayers who know how to prepare their own tax return using form instructions and publications can use the "Free File Fillable Forms" program. This program is available to any income level. There is also a free filing option for taxpayers with AGI above \$73,000.

As outlined under the Free File Alliance Memorandum of Understanding and Agreements, the IRS is prohibited from developing its own "income tax electronic filing or preparation products or services."

State Law

Current state law requires the FTB to develop and make available forms for taxpayers that are as simple as possible for taxpayers to prepare. The FTB is required to ease taxpayers' compliance burden in the form and design of tax returns.

In 2022, FTB reported to the Legislature potential concepts to increase the number of CalEITC claims and the federal EITC, including alternative filing systems. The concepts included, but were not limited to, the following:

- An overview of the changes to the income tax system that reduced any barriers to tax filing for non-filers of tax returns who were eligible for the CalEITC; and
- An outline of the necessary changes to increase collaboration and coordination among state agencies to reach the greatest number of individuals eligible for the CalEITC.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 1409 (Caballero, Chapter 114, Statutes of 2020) required the FTB to analyze and develop a plan to increase the number of CalEITC claims and the federal Earned Income Tax Credit. The FTB was required to report to the Legislature by January 1, 2022, its analysis and plan.

AB 1515 (Santiago, 2021/2022) would establish the EITC Grant Program and would authorize the FTB to allocate grants to qualified nonprofit community-based organizations or local government agencies to increase the number of eligible households claiming the CalEITC and federal EITC, the Golden State Stimulus (GSS), and the Young Child Tax Credit (YCTC). Grants would also be provided to existing VITA clinic contracts to provide free tax preparation assistance and federal individual taxpayer identification number (ITIN) application assistance. AB 1515 is currently in the third reading on the Senate floor.

PROGRAM BACKGROUND

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:
 - Make \$58,000 or less.
 - Have disabilities.
 - Speak limited English.
 - Are active duty or retired military personnel, or a dependent.
 - TCE is available to taxpayers over 60 years old.
- For more details, refer to the IRS website Free File Online Lookup Tool.

Additionally, CalFile is a free, direct online program that allows taxpayers to e-file their California only personal income tax returns with FTB. A MyFTB account provides individuals online access to tax account information and online services. The CalFile program greatly expanded taxpayers eligible for this service and also allowed taxpayers to file prior year returns. FTB began utilizing CalFile exclusively as a simplified filing portal for the California return in 2015. This portal also allowed for pre-population of data if taxpayers registered and obtained a MyFTB account. This portal does not provide a mechanism for the taxpayer to file a federal personal income tax return as well.

FISCAL IMPACT

FTB will be engaging in the following activities to achieve notifications regarding CalFile, CalEITC, and other tax benefits. We anticipate these outreach efforts will likely meet the intent of the bill:

- FTB's Webpage on [CalFile](#) and [free filing](#).
- [CalEITC calculator](#).
- CalEITC education and outreach materials made available for distribution to advocacy groups.
- Outreach to nonfilers resulting from SB 1409.

As a result, the department does not expect additional costs to implement the changes in this bill. If workload demands resulting from this program later increase, costs could change.

ECONOMIC IMPACT

This bill is not a law change that affects the computation of tax. Any revenue impact of this bill would be based on the number of new taxpayers incentivized to file a tax return as a result of the FTB’s notifications of available paperless filing options, who otherwise would not have filed. Predicting taxpayer behavior and the potential amount of tax that would be due or refunded to the taxpayer is difficult and the revenue impact is unknown.

LEGAL IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Support

The Senate Floor analyses dated June 28, 2022 stated the California Society of Enrolled Agents supports this bill.

Opposition

The Senate Floor Analysis dated June 28, 2022, stated that there is no opposition on file.

VOTES

Location	Date	Yes Votes	No Votes
Concurrence	August 23, 2022	66	1
Senate Floor	August 22, 2022	40	0
Assembly Floor	May 26, 2022	59	3

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