



## **Bill Analysis**

Author: Jackson

Sponsor:

Bill Number; AB 2977

Related Bills: See Legislative  
History

Amended: March 21, 2024,  
and April 24, 2024

## **SUBJECT**

Young Child Tax Credit Expansion

## **SUMMARY**

This bill, under the Personal Income Tax Law (PITL), would expand the Young Child Tax Credit (YCTC) by increasing the earned income threshold from \$25,000 to \$50,000 and modify the definition of a qualifying child from younger than 6 years of age to younger than 18 years of age.

## **RECOMMENDATION**

No position—The Franchise Tax Board (FTB) has not formally voted or taken a position on this bill.

## **SUMMARY OF AMENDMENTS**

The March 21, 2024, amendments removed provisions of the bill relating to the Welfare and Institutions Code and replaced them with the provisions discussed in this analysis.

The April 24, 2024, amendments removed the following provisions: the California Earned Income Tax Credit (CalEITC) phaseout limits, elimination of capital gain step-up basis on inherited property, and the elimination of the first-year minimum franchise tax exemption.

This is the FTB's first analysis of the bill.

## **REASON FOR THE BILL**

The reason for this bill is to address child poverty by expanding eligibility for the Young Child Tax Credit (YCTC).

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## **ANALYSIS**

This bill, under the PITL, would expand the YCTC by making the following changes.

1. Modify the definition of a qualified taxpayer to include an eligible individual who would have been allowed a credit under the CalEITC program if not for the limitations on earned income.
2. For taxable years beginning on or after January 1, 2025, and before January 1, 2030:
  - Increase the earned income threshold - requiring the FTB to recompute the threshold amount so that the credit reaches zero dollars as earned income reaches fifty thousand dollars.
  - Expand the definition of a qualifying child to include children that are younger than 18 years of age as of the last day of the taxable year.

### *Effective/Operative Date*

This bill would be effective January 1, 2025. The provisions that would increase the income threshold and expand the definition of a qualifying child would be specifically operative for taxable years beginning on or after January 1, 2025, and before January 1, 2030.

### *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 2023, the EITC is available to individuals and families earning up to \$63,398.

#### Child Tax Credit

Federal law allows a CTC for 2023, as follows:

- 2,000 per qualifying child
- A refundable portion up to \$1,600

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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.

### *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 2023, the CalEITC is generally available to taxpayers with earned income of \$30,950 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.

### *Implementation Considerations*

None noted.

### *Technical Considerations*

Section 17052.1(b)(1)(A) of the bill allows the credit to taxpayers who "would have been allowed a credit under section 17052 if not for the limitations on earned income described therein." Section 17052 does not specifically contain limitations on earned income. Instead, it modifies federal rules for computing and phasing out the CalEITC amount as earned income increases. If the intent of the author is to expand the YCTC to allow taxpayers who have earned income greater than zero but equal to or in excess of the amount by which the CalEITC is reduced to zero to claim the YCTC, the bill should be amended accordingly.

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### *Policy Considerations*

As drafted, this bill would expand the YCTC to include a qualified taxpayer that would have been allowed a CalEITC if not for the limitations on earned income. Since the language does not specify that the expansion applies to taxpayers who exceed the upper limit of earned income to receive any amount of CalEITC, this language can be interpreted to allow some taxpayers with zero earned income, that otherwise would not have qualified for the YCTC, to qualify for the expanded YCTC. If this is contrary to the author's intent, the author may wish to amend the bill.

### **LEGISLATIVE HISTORY**

AB 1128 (Santiago, et al. 2023/2024) would have expanded the eligibility of the YCTC by changing the definition of a qualifying child to have the same meaning as under the CalEITC. AB 1128 did not pass out of the Assembly Appropriations Committee.

SB 201 (Senate Committee on Budget and Fiscal Review, Chapter 72, Statutes of 2022) expanded the YCTC by modifying the definition of a "qualified taxpayer" to include individuals who have earned income of zero dollars or less, whose net losses do not exceed \$30,000 and whose wages do not exceed \$30,000.

AB 91 (Burke, et al., Chapter 39, Statutes of 2019) enacted the California YCTC and made a number of changes conforming to Federal law.

### **PROGRAM BACKGROUND**

None noted.

### **FISCAL IMPACT**

The FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

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**ECONOMIC IMPACT**

*Revenue Estimate*

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2977 as Amended April 24, 2024  
Assumed Enactment after June 30, 2024

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2024-2025	-\$1,200
2025-2026	-\$1,200
2026-2027	-\$1,300

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*

Based on output from the FTB's YCTC micro-simulation model, it is estimated that expanding the definition of a qualifying child to 17 and younger and increasing the credit phase out threshold to \$50,000 would result in an additional revenue loss of approximately \$1.2 billion in the 2025 taxable year.

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

**LEGAL IMPACT**

None noted.

**EQUITY IMPACT**

None noted.

**APPOINTMENTS**

None noted.

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**SUPPORT/OPPOSITION**

Support: None on file

Opposition: None on file

**ARGUMENTS**

Proponents: None on file

Opponents: None on file

**LEGISLATIVE CONTACT**

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