



STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: McKinnor, et al.

Sponsor:

Bill Number: AB 1402

Related Bills: See Legislative
History

Introduced: February 21, 2025

SUBJECT

Fresh Grants Program

SUMMARY

This bill would, under the Welfare and Institution Code (WIC), create the Fresh Start Grant Program, and for each person receiving CalFresh benefits, would require county welfare departments to determine eligibility for the California Earned Income Tax Credit (CalEITC), Foster Youth Tax Credit (FYTC), and Young Child Tax Credit (YCTC), calculate the value of the credit they could receive, and provide them with a Fresh Start Grant (FSG) for that amount.

In addition, this bill would require the Franchise Tax Board (FTB) to share requested information with the State Department of Social Services (DSS) and any county welfare department to calculate FSG amounts. Under the Personal Income Tax Law (PITL) for taxable years beginning on or after January 1, 2027, this bill would provide that the CalEITC, FYTC, and YCTC amounts allowed would be reduced by the FSG amount received.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to provide direct financial assistance to low-income households.

ANALYSIS**Fresh Start Grant Program**

This bill would, under the WIC, create the Fresh Start Grant Program (Program). Beginning on January 1, 2027, for each person receiving CalFresh benefits, require county welfare departments to determine eligibility for the CalEITC, FYTC and YCTC. For recipients eligible for a refundable tax credit, the county welfare department would calculate the value of the refundable credit received by the recipient and provide that amount to the recipient as an FSG.

No later than June 30, 2026, this bill would require the FTB to estimate the total amount of CalEITC, FYTC, and YCTC to be issued after January 1, 2027, and request that the State Controller transfer the estimated amount from the Tax Relief and Refund Account to the FSG Fund.

Data Sharing

This bill would require the DSS to provide FTB with all information relating to the issuance of the FSG Grants. The information would be provided by DSS in the form and manner prescribed by the FTB and at a minimum, would include the amount of grant received by a recipient and clearly indicate which amounts received were related to which of the three refundable credits.

Lastly, the bill would provide that the DSS and county welfare departments may request information from the FTB necessary to accurately calculate the benefits provided under CalEITC, FYTC, and YCTC. The FTB would be required to provide the information to the requesting agency. Any taxpayer information shared would be subject to the provision of Section 19542 of the Revenue and Taxation Code (RTC), related to disclosure of information.

Refundable Credit Reduction

This bill would, under the PITL, for taxable years beginning on or after January 1, 2027, provide that any amount allowed as a CalEITC, FYTC, or YCTC be reduced by the amount received as an FSG.

Effective/Operative Date

This bill would be effective January 1, 2026. The CalEITC, FYTC, and YCTC changes would be specifically operative for taxable years beginning on or after January 1, 2027. The Program provisions would be operative beginning January 1, 2026, with the county welfare departments determining eligibility for the CalEITC, FYTC, and YCTC beginning January 1, 2027.

*Federal/State Law**Disclosure of Information*

Federal law provides that returns and tax information are confidential and may not be disclosed to federal or state agencies or employees except for authorized purposes. Agencies allowed access to federal return information include certain federal and state agencies, such as the FTB. A federal return is defined as any tax return, information return, declaration of estimated tax, or claim for refund under the Internal Revenue Code (IRC). Any FTB employee or member responsible for the improper disclosure of federal tax information is subject to felony criminal prosecution.

State law prohibits the disclosure of any confidential taxpayer information, except as specifically authorized by statute. Any FTB employee or member responsible for the unauthorized disclosure of state or federal tax information is subject to criminal prosecution. Improper disclosure of state tax information is a misdemeanor and improper disclosure of federal tax information is a felony.

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 2024, the CalEITC is generally available to taxpayers with earned income of \$31,950 or less.

State law conforms to the federal definitions of an “eligible individual” and a “qualifying child” with the following exceptions:

- An eligible individual without a qualifying child must have a principal place of abode in “this state” (rather than the United States) for more than one-half of the taxable year, and for taxable years beginning on or after January 1, 2018, may have reached the age of 18 by the close of the taxable year (rather than have attained the age of 25 but not attained the age of 65 before the close of the taxable year).
- A qualifying child also must have a principal place of abode in “this state” (rather than the United States) for more than one-half of the taxable year.

The age requirement for a “qualifying child,” in general, is an individual that is younger than the eligible individual claiming such individual as a qualifying child and the following applies:

- has not attained the age of 19 as of the close of the calendar year in which the taxable year of the taxpayer begins, or
- is a student who has not attained the age of 24 as of the close of such calendar year.

With regards to an individual who is permanently and totally disabled at any time during such calendar year, the above age requirements would be treated as met.

Young Child Tax Credit (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 may be eligible for the YCTC. In addition, the maximum amount of the YCTC, initially set at \$1,000, is annually 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 indexed for inflation. For 2024, the YCTC is generally available to taxpayers with earned income of \$31,950 or less.

For 2024, the YCTC may be up to \$1,154.

Foster Youth Tax Credit (FYTC)

Starting in taxable year 2022, state law allows qualified taxpayers a refundable FYTC. A qualified taxpayer is an individual allowed a CalEITC who is 18 to 25 years of age and was in foster care while 13 years of age or older in an Aid to Families with Dependent Children-Foster Care (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.

The credit amount is equal to \$1,176 multiplied by the EITC adjustment factor for the taxable year. The FYTC is indexed for inflation and the credit amount is reduced by \$20 for every \$100 by which the qualified taxpayer’s earned income exceeds the threshold amount of \$25,000. The threshold amount and the \$20 phaseout amount are also indexed for inflation.

For 2024, the FYTC may be up to \$1,154 per eligible individual or up to \$2,308, if both primary taxpayer and spouse/registered domestic partner qualify.

Minimum Income Thresholds

For taxable years beginning on or after January 1, 2024, the YCTC and FYTC are required to have the same maximum income threshold as the CalEITC.

Offsets

Under state law, the Controller is authorized to offset delinquent accounts against personal income tax refunds that have been certified by the FTB.

For taxable years beginning on or after January 1, 2024, the Controller is prohibited from offsetting delinquent accounts against the personal income tax refunds of an individual who received the CalEITC or the YCTC for the taxable year. This prohibition does not apply to delinquent accounts for the nonpayment of child or family support.

Implementation Considerations

The FTB has identified the following implementation considerations for purposes of a high-level discussion; additional considerations may be identified as the bill moves through the legislative process. FTB staff is available to work with the author's office to resolve these and other considerations that may be identified.

This bill would require the FTB to estimate the total amount of credits to be issued for the CalEITC, YCTC, and FYTC. Based on this estimate the FTB would request the Controller to transfer the estimated dollar amount from the Tax Relief and Refund Account to the FSG Fund. It is unclear what would happen if grants issued exceed the transferred amount.

Some taxpayers who would usually receive the benefit as a refundable tax credit may not receive grant monies or some who receive a FSG may choose not to file a return. If a taxpayer receives a grant, but does not file a return, it is unclear how eligibility for the credit amount that is issued as a grant would be verified.

Some FSG recipients may not have a filing requirement, therefore, FTB will not have information to provide to DSS or county welfare departments for determination of grant amounts for that individual.

This bill would have 58 counties determining eligibility for the credits. In addition, the FTB is responsible for administering the CalEITC, YCTC, and FYTC. This could lead to disputes between taxpayers and the FTB regarding the correct credit amount if another department or county awards a grant that differs from the amount of credit the taxpayer is eligible for.

This bill would require an income tax credit reduction based on the FSG amounts received. Eligibility for the CalEITC, YCTC, or FYTC is based on factors and income levels for a tax year, generally January 1 through December 31. However, the timing of FTB receiving the grant information may not align with the tax return filing deadlines, which could complicate administration of the refundable credit reduction.

This bill would require the DSS to provide information relating to issued FSG amounts to the FTB. The bill is silent on administrative details related to the timing. If FSGs are issued throughout the year, for example January 1, 2027, through December 31, 2027, FTB would need to receive information for all 58 counties in time to process 2027 tax returns. Taxpayers may file as early as mid-January 2028, and the FTB may not have sufficient time necessary to receive and process data for each county to properly validate claimed credit amounts and the required credit reduction for FSG amounts received. This could delay processing of tax returns.

This bill would require the FTB to share information with DSS and county welfare departments to accurately calculate benefits, however the bill is silent on the information and timing of sharing the information that FTB may be required to disclose. In addition, entering into 58 different data sharing agreements and sharing data with 58 counties could be a significant workload. The FTB does not have the resources to implement this before January 1, 2027, without significant impacts and risks to systems and core processes, such as return/payment processing.

The FTB is prohibited from sharing federal tax information (FTI). Because the bill does not include the specific data that could be shared under the bill's provisions, it is recommended that the bill be amended to limit the data that may be shared only to information that the taxpayer reports to the FTB.

The Information Practices Act is not applicable to counties. To help ensure the protection of personal information, the author may want to specify what data may be shared under the program.

Technical Considerations

In Section 18946.2 (a) of the WIC, the word "estimated" should be inserted after, "...the county welfare department shall determine..."

FTB's authority to disclose information is generally included in Division 2 of Part 10.2 of the RTC. It is recommended to add any explicit authority for FTB to share data to Division 2 of Part 10.2.

Policy Considerations

The bill requires the reduction of each of the credits - CalEITC, YCTC, and FYTC - by the amount of a FSG grant received. If the author's intent is that the total amount of these credits be reduced by the FSG grant amount, the bill should be amended.

The bill is silent on whether the amount received in the form of a FSG would be excluded from gross income. If the intent of the author is to have the FSG amount excluded from gross income, the author may wish to amend the bill to specify.

The bill is silent regarding what happens if the amount of FSG grant awarded exceeds the amount of credit(s) the taxpayer is eligible for.

LEGISLATIVE HISTORY

AB 2191 (Santiago, et al., 2023/2024) would have, under the RTC, established the California Outreach, Education, and Free Tax Assistance Grant Program and would have authorized the 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 CalEITC and federal Earned Income Tax Credit, federal Child Tax Credit, the YCTC, and the FYTC. AB 2191 did not pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

California began offering its own CalEITC starting with calendar year 2015 tax returns. This refundable tax credit puts money back in the pockets of California's working families and individuals. For taxpayers who owe taxes, the CalEITC reduces the amount of taxes they might owe and may allow them a refund when they file their taxes. If they do not owe taxes, the CalEITC will provide them a tax refund when they file their taxes.

To claim the CalEITC, eligible taxpayers must file their California personal income tax return and attach Form 3514 California Earned Income Tax Credit.

OTHER STATES' INFORMATION

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.

ECONOMIC IMPACT

Revenue Estimate

Based on FTB data approximately 3.5 million taxpayers received \$1.4 billion in refunds for one or more anti-poverty credits (CalEITC, YCTC, and/or FYTC) in the 2024 taxable year.

To determine the magnitude of the revenue gain of this bill, the number of individuals receiving CalFresh benefits and number of benefit recipients who file a California personal income tax return would need to be known. Due to federal privacy rules the FTB is unable to determine the number of CalFresh recipients who also filed a personal income tax return claiming one or more anti-poverty credits. Therefore, the magnitude of the revenue gain is unknown.

Revenue Discussion

Based on data from a joint out-reach effort between the DSS and the FTB, approximately 35 percent of CalWORKs beneficiaries claimed one or more anti-poverty credit in the 2024 taxable year. If the proportion of CalFresh benefits recipients to anti-poverty credit claimants remains the same, the estimated revenue gain from fewer anti-poverty credits claimed on personal income tax returns would be \$500 million. However, if the proportion of CalFresh benefit recipients who file an income tax return is closer to 50 percent, the estimated revenue gain would be approximately \$700 million. Should that amount be closer to 85 percent, the estimated revenue gain would be approximately \$1.2 billion.

Using the same joint out-reach effort data it is assumed that not all taxpayers who file a tax return would be DSS benefit recipients. As a result, it is expected that these non-benefit recipients would continue to claim anti-poverty credits when they file their personal income tax returns. However, additional factors could impact the amount of anti-poverty credits claimed. Should a grant recipient's earned income or family size change during the year, the amount of anti-poverty credit allowed may differ from the grant. Should the anti-poverty credit amount be less than the grant received, the FTB would not adjust the amounts received. However, if the anti-poverty credit amount is greater than the grant amount, the FTB would issue an anti-poverty credit for the amount in excess of the grant.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov