

Date of Hearing: April 24, 2024

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 2191 (Santiago) – As Amended March 18, 2024

Policy Committee: Revenue and Taxation Vote: 6 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill establishes the California Earned Income Tax Credit (CalEITC) Outreach, Education, and Free Tax Assistance Grant Program (Program) to require, upon appropriation, the Franchise Tax Board (FTB) to allocate grants to increase the number of households claiming specified tax credits.

Specifically, this bill:

- 1) Requires, upon appropriation, FTB to allocate 12-month grants to qualified non-profit community-based organizations or local government agencies to increase the number of eligible households claiming the federal and state Earned Income Tax Credit (EITC), federal Child Tax Credit, state Young Child Tax Credit (YCTC), and state Foster Youth Tax Credit (FYTC), as well as to increase awareness of individual taxpayer identification number (ITIN) tax status eligibility.
- 2) Authorizes FTB to contract or partner with the Department of Community Services and Development (CSD) to administer the Program.
- 3) Requires FTB to prioritize funding for certain purposes, such as timely distribution of funds and recipients of the 2021 CalEITC+ Education and Outreach Grant administered by FTB pursuant to the Budget Act of 2021.
- 4) Requires FTB to consult with CSD and grantees to develop metrics to analyze program effectiveness and requires, beginning March 1, 2027, FTB to submit an annual report to the Legislature on program effectiveness.
- 5) Establishes the CalEITC Outreach, Education, and Free Tax Assistance Grant Fund in the State Treasury.

FISCAL EFFECT:

- 1) Cost pressures of an unknown amount to the Legislature to appropriate additional grant funds. The Budget Act of 2022 included \$10 million ongoing to FTB to provide tax credit outreach grants, with an additional \$10 million appropriated for fiscal year (FY) 2022-23 and FY 2023-24, for a total of \$20 million each of those FYs. Thus, the grant program baseline will return to \$10 million for FY 2024-25. The author is requesting \$20 million ongoing is maintained for such grants through the state budget process.

- 2) No additional administrative costs to FTB to implement the Program, as FTB already administers such a grant program under an interagency agreement with CSD. However, FTB may incur additional costs if workload demands from the program increase with funding levels.

According to the Legislative Analyst's Office, the GF faces a structural deficit in the tens of billions of dollars over the next several FYs.

COMMENTS:

- 1) **Purpose.** According to the author, the CalEITC, YCTC, and FYTC are “recognized as one of California’s most effective programs for alleviating poverty” and that “the combination of these tax credits lifts over 142,000 individuals out of deep poverty.” The author intends this bill to codify the Program “so that eligible nonprofits can continue doing the work to reach vulnerable Californians so they are able to file their taxes for free and receive the tax credits they are entitled to.” This bill is co-sponsored by the CalEITC Coalition, Golden State Opportunity, GRACE – End Child Poverty California, and United Ways of California, and supported by numerous anti-poverty and social service organizations.
- 2) **Background.**

Significant CalEITC Expansion. In 2016, California began offering its own CalEITC program modeled after the federal EITC. The Budget Act of 2019 significantly expanded the CalEITC and also enacted the YCTC, an additional \$1,000 credit for every family who qualifies for the CalEITC and has at least one child age five or under. The Budget Act of 2020 subsequently extended the CalEITC to undocumented taxpayers who file using an ITIN. Most recently, the Budget Act of 2022 created the FYTC, an additional \$1,000 credit for current and former foster youth ages 18 to 25 who qualify for the CalEITC and were in California foster care at age 13 or older.

Barriers to Claiming Anti-poverty Tax Credits. In order to claim the CalEITC, YCTC, or FYTC, a taxpayer must file an income tax return. Existing law, however, establishes a minimum income threshold before an individual must file a return, meaning most families eligible for the CalEITC are not required to file a return and are not aware they could get a tax refund if they filed a return claiming these credits. Since the enactment of the CalEITC, the state budget has allocated between \$2 million and \$20 million each year to maximize awareness of this benefit amongst eligible hard-to-reach taxpayers. The Budget Act of 2022 included \$10 million ongoing to FTB to provide tax credit outreach grants. This bill codifies and prescribes funding priorities for the FTB program allocating such grants.

- 3) **Prior Legislation.** AB 1515 (Santiago), of the 2021-22 Legislative Session, was substantially similar to this bill. AB 1515 was ordered to the Senate Inactive File.

Analysis Prepared by: Irene Ho / APPR. / (916) 319-2081