

Date of Hearing: May 11, 2022

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Chris Holden, Chair

AB 1863 (Irwin) – As Amended April 19, 2022

Policy Committee: Revenue and Taxation

Vote: 8 - 1

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill requires, for taxable years beginning January 1, 2024, and before January 1, 2027, the Franchise Tax Board (FTB) to develop the ReadyReturn Program (ReadyReturn), under which FTB prepares an electronic tax return with pre-filled income and tax liability information for taxpayers eligible for the California Earned Income Tax Credit (CalEITC). Specifically, this bill:

- 1) Requires FTB to notify eligible taxpayers that ReadyReturn is an available filing option.
- 2) Specifies that a taxpayer using ReadyReturn is not subject to penalty for any tax required to be listed on their return, but not shown on the pre-filled return.
- 3) Requires FTB to develop an alternative method to allow eligible taxpayers without internet access to request a pre-filled tax return in paper form.
- 4) Requires FTB to enable tax preparers and agents with access to their clients' taxpayer information through ReadyReturn and work with proprietary software providers to make ReadyReturn forms available to taxpayers using such software.
- 5) Requires, before January 1, 2026, FTB to submit a report to the Legislature detailing ReadyReturn utilization.

FISCAL EFFECT:

General Fund (GF) costs of an unknown, but definitely significant amount, likely in excess of \$8 million, to FTB to develop, publicize and launch ReadyReturn and report specified metrics to the Legislature. While information technology and other program infrastructure costs would likely be one-time, FTB would incur ongoing costs in staff resources and postage for outreach efforts to ensure this hard to reach taxpayer population is aware of the ReadyReturn option. GF revenue loss may also occur, to the extent this bill increases CalEITC claims.

COMMENTS:

- 1) **Purpose.** According to the author, "As of 2021, over 4 million Californians claimed CalEITC, but despite this success, thousands of eligible individuals are still not claiming the credit....AB 1863 will create the ReadyReturn program that will provide an eligible taxpayer with a simplified pre-populated tax return to encourage more eligible Californians to claim the CalEITC." This bill is supported by the California Society of Enrolled Agents.

- 2) **ReadyReturn History.** In 2005, FTB piloted a ReadyReturn program to see whether the tax filing burden was reduced if FTB provided taxpayers with a return already filled with information known to FTB, such as W-2 information, for final approval and submission back to FTB by the taxpayer. The pilot program population was limited to taxpayers with simple returns, such as those with only one employer and claiming only the standard deduction, estimated to cover about two million individuals. Of that population, approximately 100,000 taxpayers utilized the ReadyReturn filing method. Survey results were positive: 98% of online ReadyReturn taxpayers and 96% of paper ReadyReturn taxpayers said they would use the option again next year, as the process saved time and money on tax preparations fees.

In 2013, FTB began offering pre-populated tax returns for taxpayers that established a MyFTB online profile and qualified to use FTB's CalFile system, which greatly expanded the pool of taxpayers now eligible to receive such returns. As a result, FTB decommissioned its ReadyReturn pilot program at the end of the 2014 tax year and has relied on CalFile to simplify taxpayer returns. This bill creates a renewed, but different ReadyReturn program specifically for taxpayers eligible to claim the CalEITC (generally, a taxpayer with income under \$30,000 for the 2021 tax year). FTB must notify eligible taxpayers of the program, work with software providers to ensure the program is integrated with the tax preparation software sold by providers and report program results to the Legislature.

- 3) **Prior Legislation.** SB 1409 (Caballero), Chapter 114, Statutes of 2020, required FTB to develop a plan to increase the number of CalEITC and federal EITC claims.

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