

ASSEMBLY THIRD READING
AB 2589 (Santiago)
As Amended May 19, 2022
Majority vote

SUMMARY

Increase, upon appropriation, the maximum Young Child Tax Credit (YCTC) to \$2,000 for each qualifying child and would, upon appropriation, remove the earned income phaseout threshold to permanently increase the minimum California Earned Income Tax Credit (CalEITC) amount to \$255 for all eligible taxpayers.

Major Provisions

- 1) Does the following for each taxable year beginning on or after January 1, 2022, upon appropriation:
 - a) Increases the amount of the YCTC up to \$2,000, subject to phaseout, for each qualifying child;
 - b) Defines a "qualifying child" in the same manner as for the CalEITC; and,
 - c) Expands the definition of a "qualified taxpayer" as an eligible individual who satisfies either of the following:
 - i) Has been allowed a CalEITC; or,
 - ii) Would otherwise have been allowed a CalEITC, but has earned income of \$0 or less, or has wages subject to withholding equal to or less than the maximum earned income amount for CalEITC.
- 2) Requires, upon appropriation, for each taxable year beginning on or after January 1, 2022, the alternative calculation factors and phase-out amounts and removes the earned income threshold at which the phase-out ends, thereby increasing the number of eligible taxpayers.

COMMENTS

What would this bill do? This bill was amended in the Committee on Appropriations to strike out the original plan of making a \$2,000 payment per qualifying child by the State Controller and to instead increase the YCTC maximum to \$2,000 per qualifying child. Additionally, this bill modifies the existing CalEITC provisions to set the minimum CalEITC amount to \$255. Under existing law, qualified taxpayers without dependents would receive a CalEITC amount as low as \$2. Both parts of this bill are contingent on the Legislature making an appropriation.

Unprecedented wealth transfer using tax credits: This bill aims to alleviate poverty by issuing payments to those generally making \$30,000 or less using tax credits. This bill primarily benefits taxpayers with qualified children. The federal EITC is one of the most effective anti-poverty programs in America, putting money back in the pockets of low-income working families who file a tax return. California began offering its own CalEITC program in 2016. The Budget Act of 2019 significantly expanded the CalEITC, more than doubling spending on the

existing credit from \$400 million to \$1 billion and raising the number of households receiving the credit to three million. The Budget Act of 2019 also enacted the Young Child Tax Credit, 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. This bill revises CalEITC eligibility criteria to further increase credit amounts for taxpayers already eligible for the credit.

Other opportunities to alleviate poverty: This bill attempts to alleviate poverty with tax credits, which are widely popular but cost-prohibitive. However, the Legislature could also alleviate poverty by making it easier for taxpayers to access and receive welfare programs. For example, Franchise Tax Board (FTB) reported that many taxpayers are at risk of not receiving the state or federal EITC because they are not aware of the credits' value and are not required to file taxes. One of the solutions to tackle this problem is streamlining the return filing process for claiming CalEITC.

According to the Author

The author has provided the following statement in support of this bill:

As the federal expanded Child Tax Credit expires and Congress fails to provide dire financial support to the lowest-income families in our state, it's time for California to step up to prevent nearly 1.7 million children from falling back into or deeper into poverty. AB 2589 will leverage California's monumental budget surplus to provide a historic investment in our children, families, and low-income residents by expanding the Young Child Tax Credit from \$1,000 per household with children ages 0-5 that earns \$30,000 or less per year, to \$2,000 per dependent for families that earn \$30,000 or less per year. Furthermore, AB 2589 will support low-income workers by increasing the minimum California Earned Income Tax Credit from \$1 to \$255, giving around 3 million California tax filers without dependents an economic boost to support equitable recovery from the COVID-19 pandemic.

Arguments in Support

This bill is supported by the CalEITC Coalition, which notes, in part:

AB 2589, as amended, would:

- 1) Expand the existing Young Child Tax Credit (YCTC) from \$1,000 per household with children 0-5 years old, to \$2,000 per CalEITC eligible dependent; eliminate the YCTC earnings requirement; and adjust the YCTC for inflation; and
- 2) Increase the minimum CalEITC from \$1 to \$255 for any eligible tax filer.

AB 2589 aims to effectively combat poverty by delivering meaningful economic support to working individuals and families who need it most. This bill comes at a critical time, as low-income communities and communities of color continue to disproportionately deal with the economic consequences of the COVID-19 pandemic and as federal relief measures fall away. California can play an important role in ensuring an equitable recovery and future for children and families by implementing targeted anti-poverty solutions.

Arguments in Opposition

None on file

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

- 1) General Fund (GF) cost pressures of an unknown, but definitely significant amount, likely in the billions of dollars, for CalEITC and Young Child Tax Credit payments. FTB estimates GF revenue loss of \$3.3 billion in fiscal year (FY) 2022-23 for the CTC and \$500 million in FY 2022-23, \$450 million in FY 2023-24 and \$460 million in FY 2024-25. The author is requesting a one-time \$3.8 billion GF appropriation to fund Young Child Tax Credit payments and an ongoing \$430 million GF appropriation to fund CalEITC payments in the 2022-23 state budget.
- 2) Costs of an unknown, but likely significant, amount to FTB to revise and perform outreach on updated CalEITC and Young Child Tax Credit criteria.

VOTES**ASM REVENUE AND TAXATION: 10-0-1**

YES: Irwin, Nguyen, Gray, Grayson, Levine, Mayes, Calderon, Petrie-Norris, Quirk, Santiago
ABS, ABST OR NV: Seyarto

ASM APPROPRIATIONS: 13-0-3

YES: Holden, Bryan, Calderon, Carrillo, Davies, Mike Fong, Gabriel, Eduardo Garcia, Levine, Quirk, Robert Rivas, Akilah Weber, Wilson
ABS, ABST OR NV: Bigelow, Megan Dahle, Fong

UPDATED

VERSION: May 19, 2022

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FN: 0002876