

Date of Hearing: May 21, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 398 (Ahrens) – As Introduced February 4, 2025

Policy Committee: Revenue and Taxation

Vote: 5 - 1

Urgency: No

State Mandated Local Program: No

Reimbursable: No

**SUMMARY:**

This bill establishes a minimum credit amount of approximately \$300 for taxpayers who claim the California Earned Income Tax Credit (CalEITC).

Specifically, this bill:

- 1) Provides, for taxable years beginning on or after January 1, 2025, if the credit amount calculated for an eligible individual under the CalEITC, multiplied by the adjustment factor, is less than \$355, that the individual is instead allowed a CalEITC of \$355, multiplied by the adjustment factor (which has historically been 0.85, resulting in a credit of \$301.75).
- 2) Provides, for taxable years beginning on or after January 1, 2026, that the CalEITC minimum amount is recomputed annually to adjust for inflation.
- 3) Modifies the Franchise Tax Board's (FTB's) existing reporting requirement regarding CalEITC data to separately, for comparison purposes, provide data for CalEITC claimants as if these CalEITC changes were not in effect.

**FISCAL EFFECT:**

- 1) General Fund (GF) revenues losses of approximately \$180 million in fiscal year (FY) 2025-26, \$260 million in FY 2026-27, and \$400 million in FY 2027-28. By decreasing Personal Income Tax revenue, this bill also likely decreases Proposition 98 GF spending by approximately 40% of the GF revenue loss (the exact amount depends on the specific amount of the annual Proposition 98 guarantee).
- 2) GF costs of an unknown, but potentially significant, amount to FTB to reprogram systems, revise forms, conduct taxpayer outreach, and provide additional reporting for an expanded CalEITC.

**COMMENTS:**

- 1) **Purpose.** According to the author, "We must put more money in the pockets of Californians to help make ends meet, and this proposal does exactly that by providing a \$300 minimum CalEITC benefit." The author contends this bill "would serve to boost household incomes and enhance the economic security of CalEITC recipients, encourage more Californians to file their taxes, and support economic growth." This bill is co-sponsored by the Prosper California Coalition, Golden State Opportunity, GRACE – End Child Poverty California, and

United Ways of California and supported by a large coalition of economic and social justice groups.

- 2) **Anti-poverty Tax Credit Expansion.** In 2016, California began offering its own CalEITC, modeled off the federal earned income tax credit, to put money back in the pockets of low-income, working families who file tax returns. The Budget Act of 2019 significantly expanded the CalEITC and also enacted the Young Child Tax Credit (YCTC) to provide an additional \$1,000 credit for every family who qualifies for the CalEITC and has at least one child younger than age six. The Budget Act of 2020 subsequently extended the CalEITC to undocumented taxpayers who file using an Individual Taxpayer Identification Number. Most recently, the Budget Act of 2022 extended the YCTC to zero-income filers, indexed the credit amount and earned income threshold for inflation, and created a Foster Youth Tax Credit, 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. This bill further expands the CalEITC by establishing a minimum credit amount of approximately \$300 for claimants.
- 3) **Related Legislation.** AB 397 (Mark Gonzalez) expands the number of taxpayers eligible for the YCTC by gradually modifying the definition of a “qualifying child” to include children over the age of five, eventually aligning with the definition of a “qualifying child” under the CalEITC. AB 397 is pending hearing by this committee.
- 4) **Prior Legislation.** AB 1498 (Gipson), of the 2023-24 Legislative Session, was substantially similar to this bill. AB 1498 was held on this committee’s suspense file.

AB 2589 (Santiago), of the 2021-22 Legislative Session, would have, upon appropriation, increased the YCTC to \$2,000, extended the YCTC to zero-income filers, and set a minimum CalEITC amount of \$255. AB 2589 was not set for hearing in the Senate Committee on Governance and Finance at the request of the author.

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