AMENDED IN ASSEMBLY FEBRUARY 12, 2015

AMENDED IN ASSEMBLY FEBRUARY 4, 2015

CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

ASSEMBLY BILL No. 43

Introduced by Assembly ~~Member Mark Stone~~ *Members Mark Stone, Eggman, Levine, McCarty, and Thurmond*

~~(Principal coauthor: Assembly Member Levine)~~

(Principal coauthors: Assembly Members Alejo, Bonilla, Bonta, Chiu, Dodd, and Lopez)

(Coauthors: Assembly Members Bloom, Chau, Gonzalez, Roger Hernández, Mullin, O'Donnell, and Rendon)

December 1, 2014

An act to add Section 17052.1 to the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 43, as amended, ~~Mark Stone~~ *Mark Stone*. Personal income taxes: credit: earned income.

The Personal Income Tax Law allows various credits against the taxes imposed by that law, including certain credits that are allowed in modified conformity to credits allowed by federal income tax laws. Federal income tax laws allow a refundable earned income tax credit for certain low-income individuals who have earned income and who meet certain other requirements.

This bill, for taxable years beginning on or after January 1, 2016, in modified conformity with federal income tax laws, would allow an earned income credit to an eligible individual that is equal to specified percentages of the earned income tax credit allowed by federal law.

The bill would provide that in those years in which an appropriation is made by the Legislature, the credit would be refundable. The bill would also make findings and declarations.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares all of the following:

(a) In its Supplemental Poverty Measure report for the year 2013, released in October 2014, the United States Census Bureau reported California's rate of poverty to be 23.4 percent. This rate is the highest among all 50 states.

(b) Using census data released in September 2014, the California Budget Project (CBP) reported that the economic recovery from the Great Recession has largely bypassed low- and middle-income Californians, with the bottom three-fifths of the income distribution experiencing stagnating income gains. This is contrasted with the top one-fifth of the income distribution experiencing gains of 52.4 percent.

(c) A briefing on poverty released by the CBP in August 2014 reports that 67 percent of families living in poverty were supported by one or more workers in 2012. Given that the majority of families living in poverty are working families in California, it is evident that poverty largely reflects low-paying jobs, not the absence of employment.

(d) In California, the Public Policy Institute of California (PPIC), in collaboration with the Stanford Center on Poverty and Inequality, has developed the California Poverty Measure (CPM), which underscores the role of California's social safety net, amount which includes the CalFresh Program, CalWORKs, and the federal Earned Income Tax Credit (EITC), in mitigating poverty.

(e) Using data from 2011, a PPIC report on the CPM released in October 2013, reveals that 22 percent of Californians, 8.1 million people, lived in poverty. A comparison of CPM rates by county show that the three most populous counties, Los Angeles County, San Diego County, and Orange County, all had rates above the statewide CPM at 26.9 percent, 22.7 percent, and 24.3 percent, respectively.

(f) The CPM rate for children statewide for children, those under the age of 18, was 25.1 percent, the highest rate of any age group. This amounts to 2.3 million of California's children living in poverty.

(g) Without need-based safety net programs and resources, over 30 percent of Californians would be living in poverty. ~~The~~ *According to the CPM, the* absence of the safety net would increase the poverty rate among California's children to 39 percent ~~according to the CPM~~.

(h) Refundable tax credits, including the federal EITC, reduced the poverty rate in California by 3.2 percent overall. Among children, the poverty rate reduction was 6 percent. This means that 560,000 fewer children and 600,000 fewer working-age adults, 1.16 million people fewer in total, are living in poverty when refundable tax credits are accounted for in the CPM.

(i) According to the National Conference of State Legislatures, 25 states in the country and the District of Columbia, provide an EITC in addition to the federal EITC. California does not currently have a state EITC.

(j) A Brookings Institution report issued in January 2003, shows that in addition to boosting the family incomes of families in poverty, state EITC refunds served as an important economic stimulus for the communities and regions of the families by magnifying the impact of the federal EITC overall.

SEC. 2. Section 17052.1 is added to the Revenue and Taxation Code, to read:

17052.1. For each taxable year beginning on or after January 1, 2016, there shall be allowed a credit against the "net tax," as defined by Section 17039, for the taxable year, an amount determined in accordance with Section 32 of the Internal Revenue Code, as amended by Section 1002(a) of Public Law 111-5, as amended by Section 219(a)(2) of Public Law 111-226, as amended by Section 103(c) of Public Law 111-312, and as amended by Section 103(c) of Public Law 112-240, as amended by Section 206(a) of Public Law 113-295, relating to earned income, except as follows:

(a) (1) For an eligible individual who has at least one qualifying child under five years of age, the credit amount shall be equal to the federal earned income credit amount multiplied by 35 percent.

(2) For an eligible individual who does not have a qualifying child, the credit amount shall be equal to the federal earned income credit amount multiplied by 60 percent.

(3) For any other eligible individual who does not meet the requirements of paragraph (1) or (2), the credit amount shall be equal to the federal earned income credit amount multiplied by 15 percent.

(b) If the amount allowable as a credit under this section exceeds the tax liability computed under this part for the taxable year, the excess shall be credited against other amounts due, if any, and the balance, if any, shall, upon appropriation by the Legislature, be refunded to the qualified taxpayer.

(c) Any amounts refunded to a taxpayer pursuant to this section shall not be included in income subject to tax under this part.

(d) Notwithstanding any other law, amounts refunded pursuant to this section shall be treated in the same manner as the federal earned income refund for the purpose of determining eligibility to receive benefits under Division 9 (commencing with Section 10000) of the Welfare and Institutions Code or amounts of those benefits.

(e) This section is notwithstanding Section 41.

SEC. 3. This act provides for a tax levy within the meaning of Article IV of the Constitution and shall go into immediate effect.

CORRECTIONS:

Heading—Lines 1, 6 and 7.

Digest—Page 1.

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