OVERVIEW

The percentage of eligible Californians who actually receive the state’s Earned Income Tax Credit remains low. California needs to take stronger measures to raise the below-average EITC take-up rate and reduce the share of refunds diverted to fees for tax preparers.¹

A clear way for the Franchise Tax Board to do so would be to design and mail a simple form to those the agency believes to be eligible for the CalEITC, which would serve as both the taxpayer’s EITC claim worksheet and tax return. The form would combine fields from those two existing forms and be pre-populated to the greatest possible extent, using a variety of data sources available to state agencies. It also provides for a cover letter that informs recipients of the EITC amount to which they may be entitled based on the data the state already has.

This automated filing proposal could potentially benefit as many as 265,000 California families, ensuring they receive the credit they have earned and boosting local economies around the state (explained further below).

KEY RECOMMENDATIONS:

- FTB should design (in consultation with experts) a short CalEITC form that combines relevant fields from the 540 2EZ and the CalEITC form necessary to claim the CalEITC (and nonrefundable renter’s credit on the Form 540 2EZ) that would also serve as the filer’s tax return for the year, with the goal of increasing the CalEITC take-up rate. Look to IRS CP-09 form as example of limited info necessary and how to walk taxpayers through the process of providing accurate data. Lines should include:
  - Income lines: Wages, Self-employment income, Other income (dividend, interest, etc.)
  - Qualifying dependents
  - Filing status
  - CA residency

- Pre-populate this form as fully as possible, utilizing data from prior year tax returns.
  - Income reported to FTB (e.g. on W2s and 1099s) should be pre-populated.
  - Dependents, marital status, and residency should also be pre-populated, but could

alternatively be left blank for the taxpayer to complete.

- Filers should be instructed in a simple, easy to understand cover letter that the form has been populated with all the data of which the state is aware of, and that if this data is correct, they may be eligible for a CalEITC of up to [amount].
  - Recognizing that determining dependents is challenging (and often changes year to year), the cover letter could have a general statement such as, “You may be eligible for a refund of up to $X if you have qualifying dependents or $Y if you do not.” Or, the cover letter could provide a simple table showing the maximum credits for 0, 1, 2, and 3+ dependents.
  - It should then invite them to verify the pre-populated data (with a blank space for corrected data next to each prepopulated entry) and/or provide changes and additional data if necessary.

- Send paper versions of this form and cover letter between April 15 and June 30 to those FTB believes to be eligible (based on prior tax year wage data as well as dependent and other relevant information from prior tax year returns), but who have not yet filed. It should also be sent to anyone who filed a current return and appears eligible but did not claim it.
  - Send a second mailing before September 30 to those whom FTB newly believes may be eligible based on info received from IRS or other state agencies, and to those who did not respond to the first mailing.

- FTB should also make this form available on the MyFTB website, including a mobile-optimized version that can be completed entirely on a smartphone.
  - All paper communications should inform recipients that they can complete the form quickly and securely on their smartphone, and direct them to the online form.
  - Provide a hotline to assist EITC claimants, shown on the form and cover letter, run by FTB or by a non-governmental organization and staffed by VITA workers.
  - All communications should make claimants aware of free tax prep programs, including free online and in-person filing services.

- Include an appropriation for the funds needed to administer this program, including design, staffing, postage, programming computers, and the hotline.

- Take necessary measures to provide for security of communication to and from taxpayers.
  - The form should be sent by mail, like all other FTB outreach to taxpayers, but outreach should direct filers to myFTB using phrases like “faster refunds,” “check on refunds,” and “update current tax filing and tax information”.

CALCULATING POTENTIAL IMPACT:

- If, as recommended, the FTB sends pre-populated forms to (1) current year filers who appear eligible but did claim the credit; and (2) non-filers who appear eligible, we estimate an additional 265,000 households could claim the CalEITC they have earned.

This estimate relies on a 28% response rate in a New York pilot of outreach to apparently eligible households that had not claimed the credit. Using IRS data for California’s EITC estimated eligibility and take-up rate, approximately 950K households are eligible but not claiming the credit. This federal data works as a rough estimate for the minimum number of EITC recipients that could be added to the CalEITC as state EITC uptake tends to be somewhat lower than federal, especially for newer credits.

2 This pool is estimated using IRS data for California: federal EITC uptake rate of 74.7% results in 2.8 million federal EITC claims, so there are 3.75M eligible for federal EITC, and a 28% response from the 950K not claiming the credit = 265,000.