



Automatic filing would make CalEITC work better for California communities

Senate Bill 1409 is the first crucial step toward increasing the impact of one of California's most powerful anti-poverty tools

3.3 million Californians have received an income boost from the CalEITC and Young Child Tax Credit in 2020, but an estimated one in four who are eligible are left out simply because of administrative barriers to applying. In the midst of a crisis, it's crucial to ensure that the tools policymakers have put in place to help people can actually reach them. In passing SB 1409, lawmakers have paved the way for automatic filing as a commonsense solution to increasing uptake of CalEITC and ensuring that everybody who's eligible gets the income boost they've earned.

CALEITC IS A FINANCIAL LIFELINE FOR STRUGGLING CALIFORNIANS

It's more important than ever for low-income Californians to get the help they need to make ends meet. As Californians face intertwining health, economic, and environmental crises, it's critical that the institutions we all rely on function smoothly, especially those that provide relief for low-income families struggling to keep their heads above water. Some of the most significant supports for Californians impacted by the jobs and income crisis are the CalEITC, our state's version of the federal Earned Income Tax Credit, and the related Young Child Tax Credit (YCTC), which provides an extra credit of up to \$1,000 for CalEITC-eligible families with young kids. Together, the CalEITC/YCTC boosted incomes for nearly 3.3 million taxpayers in tax year 2019. Not only does this money help Californians pay the bills and keep food on the table, it also helps spur an economic recovery by providing cash to the low-income families [most likely](#) to spend it.

Policymakers have elevated reducing the burden of claiming CalEITC/YCTC as a key priority. With the passage of [SB 1409](#), Franchise Tax Board (FTB) is required to develop a plan to increase uptake of the CalEITC and federal EITC, including studying alternative filing systems, like automatic filing.¹

¹ Alternative filing systems may include fully automated, no-file options or pre-filled forms to make filing less burdensome, all of which are considered here as falling under the umbrella term "automatic filing."

AUTOMATIC FILING HELPS THE HARDEST TO REACH GET CRITICAL RELIEF

Automating the CalEITC/YCTC filing process will keep the most vulnerable Californians from falling through the cracks. Since enactment of CalEITC in 2015 and the addition of YCTC in 2019, the reach of CalEITC/YCTC has grown significantly. So far in 2020, CalEITC/YCTC has put money into the pockets of nearly 3.3 million low-income workers.

But estimates based on the federal EITC suggest there are another 1.2 million eligible households² who don't get the credit at all because of administrative hurdles – keeping millions of dollars from flowing into struggling communities. Under the current complicated filing system, the [majority of EITC recipients](#) forfeit a [substantial amount](#) of their benefits to paid tax preparers to get their state and federal tax refunds.

Automatic filing will drive both state and federal dollars into California communities.

Based on a [New York pilot](#) that showed a 28% increase in uptake using a similar model, California could expect to reach nearly 330,000 more CalEITC/YCTC-eligible families through automatic filing. In SB 1409, lawmakers rightly recognized that boosting uptake at the state level is likely to raise awareness and uptake of the federal EITC as well, which will drive federal funds into struggling California households, boosting families and local economies.

² Based on federal EITC [participation rate](#) of 73.8% in 2016 and 3.3 million CalEITC so far for Tax Year 2019.

Automatic filing builds on existing infrastructure. Automatic filing can make the system work as it was intended, and ensure that more of those who are eligible get the tax credits they've earned. To accomplish this, FTB can design and mail a simple form to those believed to be eligible for the CalEITC/YCTC, which would serve as both their EITC claim worksheet and tax return. Recipients would then review the information, sign the forms, and send them back to get their refunds.

KEY RECOMMENDATIONS FOR FTB

Design a short CalEITC/YCTC form that combines relevant fields from the 540 2EZ and the CalEITC/YCTC form necessary to claim the CalEITC/YCTC (and nonrefundable renter's credit on the Form 540 2EZ), which would also serve as the filer's tax return for the year. FTB can look to IRS [CP-09 form](#) as an example of the limited information necessary and how to walk taxpayers through the process of providing accurate data. Lines should include:

- Income lines (wages, self-employment income, other income, such as dividend, interest, etc.);
- Qualifying dependents;
- Filing status; and
- CA residency.

Pre-populate the form to the greatest extent possible, using data from prior year tax returns, including income reported to FTB (e.g. on W2s and 1099s) and dependents, marital status, and residency.

Filers should be given simple instructions in a cover letter informing them that the form has been populated with all the relevant data the state has, and notifying them of the CalEITC/YCTC and EITC amount the state estimates they're eligible for based on that data. The instructions should direct recipients to verify the information or correct it in a blank space next to each prepopulated entry.

Determining dependents is challenging and often changes year to year. The cover letter should include a statement about how much a recipient

is eligible for with and without dependents. Or, it could provide a simple table showing the maximum credits for 0, 1, 2, and 3+ dependents.

Send paper versions of this form and cover letter between April 15 and June 30 to households FTB's data show are likely to be eligible based on prior tax year data. Forms should be sent to those who haven't filed yet, and to anyone who filed a current return and appears eligible for CalEITC/YCTC or federal EITC but did not claim them.

FTB should send second mailings before September 30 to any households whom FTB newly believes may be eligible based on information received from IRS or other state agencies, as well as to those who did not respond to the first mailing.

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 phone, 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 preparation 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."