



STATE OF CALIFORNIA
Franchise Tax Board

Report On the Study to Increase the Number of Claims for the California and Federal EITC

Economic and Statistical Research Bureau

Purpose

This report fulfills the Franchise Tax Board's obligation under Chapter 114 Section 2 of the Statutes of 2020, to report by January 1, 2022, to the Legislature, an analysis and plan, as specified. The statute requires the Franchise Tax Board to analyze and develop a plan to increase the number of claims of the California Earned Income Tax Credit (CalEITC) allowed pursuant to Section 17052 of the Revenue and Taxation Code, and the federal Earned Income Tax Credit (EITC), including alternative filing systems.

Prepared by the Staff of the
Franchise Tax Board
STATE OF CALIFORNIA

Members of the Board:
Betty T. Yee, Chair
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Executive Officer: Selvi Stanislaus

Executive Address

Members of the Legislature:

Last year, Californians continued to face many challenges due to the ongoing pandemic. For many of those most in need, the financial burdens caused by COVID-19 have been the most difficult to overcome.

The federal Earned Income Tax Credit (EITC), the largest anti-poverty cash assistance program in the United States, is one of the most powerful tools we have to fight poverty. Here in California, we have CalEITC, the state's largest tax credit. CalEITC benefits millions of taxpayers annually and can put hundreds or even thousands of dollars back in the pockets of working California families. Last year the state helped a record number of individuals and families make ends meet by awarding almost \$1.3 billion in CalEITC credits.

Unfortunately, some lower-income households 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. Having a clearer understanding of those taxpayers who do not claim these valuable credits, despite being eligible, can help us ensure that all eligible Californians receive them.

The Franchise Tax Board (FTB) recognizes the power of these programs and the importance of ensuring we reach all eligible Californians so they get all of the tax credits they are entitled to. FTB remains committed to working in partnership with our stakeholders in order to increase awareness and the number of CalEITC claims.

As required by statute, in this report FTB analyzes various concepts to increase the number of CalEITC claims, including alternative filing systems.

With the above in mind, I humbly submit this report to the Legislature as required under Chapter 114 Section 2 of the Statutes of 2020. Thank you for your support as we work together to serve the great State of California.

Selvi Stanislaus
Executive Officer

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Legislative Background and FTB Statutory Reporting Requirements

Chapter 114 of the Statutes of 2020 (SB 1409), states that it is the intent of the Legislature to do both of the following:

- (1) Improve California's tax system by removing barriers to tax filing for low- and very low-income families to increase the number of CalEITC claims.
- (2) Develop methods of collaboration and coordination between state agencies to lead to optimal government efficiency to increase the number of CalEITC claims.

The statute requires the Franchise Tax Board (FTB) to address parameters including the following:

- Analyze and develop a plan to increase the number CalEITC claims allowed pursuant to Section 17052 of the Revenue and Taxation Code, and the federal EITC, which the IRS also refers to as the Earned Income Credit, or EITC;
- The analysis will include alternative filing systems;
- The analysis shall include, but is not limited to, an overview of the changes needed to the income tax system that would reduce any barriers to tax filing for nonfilers of tax returns who are eligible for CalEITC;
- An outline of the necessary changes needed to increase collaboration and coordination among state agencies to reach the greatest number of individuals eligible for CalEITC;
- The FTB shall engage any state agency task force and may engage any group that exists to reduce poverty and other stakeholders that work to reduce poverty; and
- The FTB shall report to the Legislature on or before January 1, 2022, on its analysis and plan required by this section.

EITC Background

California and the federal government have each adopted anti-poverty EITC programs for both adults and children in lower-income working families. The primary purpose of the programs is to lift people out of poverty and to encourage labor market participation by providing additional tax benefits for those who earn wages or compensation from employment or entrepreneur business operations. The EITCs, unlike other anti-poverty programs, are administered through the tax system and require the filing of a tax return with the federal government and California to claim the credits.

See Exhibit 1 for further historical information.

Statistics help establish a common beginning point to determine possible program improvements that will increase the number of taxpayers claiming the EITC credits and reduce filing barriers. The following key statistics are noted below and also summarized on the following pages:

- 94% of returns claiming CalEITC are filed electronically using software, which usually creates automatic prompts to ensure taxpayers are aware of the credit and can claim it accordingly.
- 95%+ of returns claiming CalEITC are filed by the original due date for the return – generally April 15th.
- For tax year 2020, approximately 52% of CalEITC claimants also claimed CalEITC on their 2019 tax year return. Statistics for prior years indicated this percentage was at or below 40%, indicating a lower percentage of taxpayers claiming the credit year over year. The exceptional factors of COVID-19 and the resulting economic challenges, make it difficult to understand whether the increase of claimants year over year will be a continuing trend or whether we will see a return to lower pre-pandemic levels.
- Each year since the program was enacted, more than 50% of the returns filed claiming CalEITC were prepared by a preparer. This statistic has increased each year and is currently trending near 60%.

Table 1. Tax Year 2020 Key Data Statistics – For returns processed through 11/6/2021

Credit Amount	Allowed Count	Allowed Amount	Average	Median	% of Total
Less than \$100	1,629,202	\$82,394,953	\$51	\$50	38.29%
\$100 to \$199	1,640,072	\$242,178,991	\$148	\$147	38.55%
\$200 to \$499	455,895	\$140,585,449	\$308	\$282	10.71%
\$500 to \$999	82,017	\$59,094,137	\$721	\$715	1.93%
\$1,000 to \$1,999	358,786	\$489,309,143	\$1,364	\$1,345	8.43%
\$2,000 to \$2,999	68,646	\$165,092,301	\$2,405	\$2,382	1.61%
\$3,000 to \$3,982	20,206	\$68,778,297	\$3,404	\$3,381	0.47%
Total	4,254,824	\$1,247,433,271	\$293	\$128	100.00%

Table 2. CalEITC Statistics by Number of Qualifying Children and Process Year: Data through 11/6/2021 and 11/7/2020

Number of Qualifying Children	Number of Returns 2020	Number of Returns 2021	Percent of Total Returns 2020	Percent of Total Returns 2021	Median CalEITC Amount 2020	Median CalEITC Amount 2021
No Qualified Children	2,739,630	3,198,563	71.42	75.17	\$97	\$105
1 Qualified Children	609,011	598,230	15.88	14.06	\$265	\$303
2 Qualified Children	333,992	312,659	8.71	7.35	\$323	\$373
3 Qualified Children	153,214	145,664	3.99	3.42	\$322	\$379
Total	3,835,847	4,255,116	100	100	\$121	\$125

Table 3. General CalEITC program statistics by tax year:

Category	2015	2016	2017	2018	2019	2020 (as of 11/30/2021)
CalEITC \$	\$200,293,222	\$204,881,901	\$347,978,315	\$396,685,513	\$737,341,037	\$863,403,608
CalEITC #	385,546	385,910	1,477,060	2,091,338	3,854,123	4,279,119
YCTC \$	N/A	N/A	N/A	N/A	\$389,173,109	\$391,362,934
YCTC #	N/A	N/A	N/A	N/A	428,857	420,568
Preparer CalEITC%/YCTC%	not tracked	56%	61%	58%	53%/61%	57%/63%
% of CalEITC returns e-filed	89%	89%	89%	90%	92%	92%
% CalEITC Returns Filed Timely	94%	93%	91%	90%	96%	92%
Repeat Claimants	0%	26%	13%	38%	37%	51%
CalFile Returns (total)	167,957	152,361	141,955	122,734	113,344	119,692
CalFile Returns with CalEITC claimed	3,923	3,320	7,471	9,283	14,168	16,093
VITA ¹ Returns (total)	305,344	303,456	319,380	318,938	202,640	178,292
VITA Returns with CalEITC claimed	16,937	15,840	46,256	72,385	83,441	61,216
Amount Improper Payments Stopped by Fraud Checks	\$26,109,046	\$30,062,913	\$65,098,468	\$78,190,045	\$150,389,582	\$116,443,294
Changes to Statutes		N/A	Expanded to allow Self Employment & expanded income limits	Expanded age groups, income limits, & included childless taxpayers	Expanded income levels and adopted YCTC	Expanded to ITIN filers
Education and Outreach Grants	\$0	\$2,000,000	\$2,000,000	\$10,000,000	\$10,000,000	\$5,000,000
GSS Outreach Grants						\$5,100,000; less \$2,000,000

¹ Volunteer Income Tax Assistance

Identifying and Understanding Barriers That Exist

Taxpayer Issues or Barriers

To effectively understand the issues or barriers that may impact or prevent taxpayers from claiming the federal EITC or CalEITC, FTB reached out to community based organizations, interested parties, peer state agencies, and reviewed prior comments raised during previous legislative hearings. See Exhibit 2.

The following items were noted and will be critical to understand so that any program enhancements or changes can reduce or eliminate these issues or barriers. They are not rated as to significance or commonality.

Issues or Barriers Raised as Concerns:

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Materials are not available in multiple languages.
- Some taxpayers are not aware of filing requirements or available tax credits.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Some taxpayers do not have all documents or records needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not have internet access.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner.)
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Franchise Tax Board Operational Barriers

Since program inception, FTB has implemented a number of different strategies to increase the number of qualified taxpayers who claim CalEITC. As a result of the expansion of the credit, and the strategies implemented, the number of returns claiming the CalEITC grew from just over 385,000 in 2015 to more than 4.2 million in 2020. This report looks at additional operational barriers that would be critical to understand so that any program enhancements or concepts implemented can reduce or eliminate these barriers as intended. They are not rated as to significance or commonality.

- FTB has limited data to identify eligible taxpayers and/or compute the potential CalEITC. Limitations exist as to:
 - Timing as to when data is available.
 - Accuracy of data available.
 - Comprehensiveness of available data.
- For a variety of reasons, Californians are not always responsive to outreach efforts - even those from trusted messengers. This can lead to less than desired results for outreach efforts.
- FTB does not have sufficient existing resources to implement new strategies and in some cases may also lack statutory authority.
- FTB does not have automated solutions in place to quickly implement proactive efforts to expand the CalEITC program and technology efforts can take several years to deploy depending on the magnitude of program changes needed.

FTB barriers are addressed in each concept in the Administration Section.

Concepts Reviewed

Based on discussions with stakeholders regarding barriers and proposed concepts to review, the following concepts are discussed in the remainder of this report.

As available, the concept is described, information is provided as to how that concept could be administered, and the benefits and risks, as well as any necessary law changes, are explained.

- A. Develop a simplified filing portal
- B. Pre-populate state income tax returns
- C. Simplify the tax filing process
 - 1) Modify Form 3514
 - 2) State staff assistance with filing or Volunteer Income Tax Assistance (VITA) referrals
- D. Expand education and outreach to potentially eligible CalEITC taxpayers
 - 1) Outreach opportunities by state staff administering public assistance programs
 - 2) Outreach opportunities by FTB
- E. Tax Identification Number
 - 1) Create a provisional California unique identifier
 - 2) Use state agency workforce to provide free assistance in completing and filing forms for individuals needing an ITIN
- F. Create tax forms in multiple languages
- G. Grant funding, increased funding
- H. Grant funding, year-round funding

Table 4. Summary Table of Concepts and Observations

The following table summarizes high level observations of this study. The remainder of the report provides full details and additional critical information related to each observation.

Concept	Observations
<i>Concept A</i> - Develop a simplified filing portal	FTB's CalFile already allows for this service for state tax filing.
<i>Concept B</i> - Pre-populate state income tax returns	Significant data gaps (timing, accuracy, completeness) to credibly determine eligibility exist; data-sharing among agencies could violate federal law.
<i>Concept C-1</i> - Simplify the tax filing process: Modify Form 3514	Could ease filing burdens for CalEITC, increase awareness of the credit and the number of filers claiming the credit; however, there is an increased risk of fraud.
<i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with filing or VITA referrals	IRS rules and procedures and federal law could hinder this concept from being implemented. Potentially significant legal barriers could exist, particularly related to whether state employees would be considered 'paid tax preparers.' Additionally, insufficient VITA volunteers impact success and VITA services are not year round.
<i>Concept D-1</i> - Expand education and outreach to potentially eligible CalEITC taxpayers: Outreach opportunities by state staff administering public assistance programs	Current data sharing laws may not be sufficient to address the needs of this concept; data-sharing among agencies could violate federal law.
<i>Concept D-2</i> - Expand education and outreach to potentially eligible CalEITC taxpayers: Outreach opportunities by FTB	Current data sharing laws may not be sufficient to address the needs of this concept; data-sharing among agencies could violate federal law.
<i>Concept E-1</i> - Tax Identification Number: Create a provisional California unique identifier	The process FTB would need to set up may not differ significantly from the existing federal process and introducing a new identifier creates an enhanced opportunity for fraud to occur.
<i>Concept E-2</i> - Tax Identification Number: Use state agency workforce to provide free assistance in completing and filing forms for individuals needing an ITIN	IRS rules and procedures based on federal law could hinder this concept from being implemented.
<i>Concept E, Alternative #1</i> - Tax Identification Number: Amend CalEITC statute to allow taxpayers until October 15 th to apply for an ITIN (instead of being issued one)	Current statutory language may need to be updating to implement this concept.
<i>Concept F</i> - Create tax forms in multiple languages	Would require significant vendor support and depending on volume and languages chosen, may be difficult to timely publish all tax forms supporting filing. May also require software companies to provide filing tools in multiple languages to be effective.
<i>Concept G</i> - Increase grant funding for community organizations to engage in outreach and free tax preparation services	Able to implement quickly and some resources needed. Ongoing budget authority would be necessary.
<i>Concept H</i> - Provide ongoing grant funding so outreach and filing assistance can be conducted year-round	Able to implement quickly and some resources needed. Ongoing budget authority would be necessary.

Table 5. Summary Table of Barriers with Concepts

The following table provides a listing of barriers and how they relate to the concepts mentioned in this report. The remainder of the report provides full details and additional critical information related to each concept and how, or if, the barrier could be effectively addressed or even addressed at all.

Taxpayer Issues or Barriers

Barrier or Issue	Related Concepts
<p>Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.</p>	<ul style="list-style-type: none"> • <i>Concept A</i> - Develop a simplified filing portal • <i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with return prep or VITA referrals • <i>Concept D-2</i> - Education and Outreach: Use data to contact individuals who appear eligible • <i>Concept F</i> - Create tax forms in multiple languages • <i>Concept G</i> - Increase grant funding for community organizations to engage in outreach and free tax preparation services • <i>Concept H</i> - Provide ongoing grant funding so outreach and filing assistance can be conducted year round
<p>Materials are not available in multiple languages.</p>	<ul style="list-style-type: none"> • <i>Concept F</i> - Create tax forms in multiple languages
<p>Some taxpayers are not aware of filing requirements or available tax credits.</p>	<ul style="list-style-type: none"> • <i>Concept B</i> - Pre-populate state income tax returns • <i>Concept C-1</i> - Simplify the tax filing process: Modify Form 3514 • <i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with return prep or VITA referrals • <i>Concept D-1</i> - Education and Outreach: Partner with peer agencies to share data and conduct direct outreach to program participants • <i>Concept D-2</i> - Education and Outreach: Use data to contact individuals who appear eligible • <i>Concept F</i> - Create tax forms in multiple languages • <i>Concept G</i> - Increase grant funding for community organizations to engage in outreach and free tax preparation services • <i>Concept H</i> - Provide ongoing grant funding so outreach and filing assistance can be conducted year round
<p>Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.</p>	<ul style="list-style-type: none"> • <i>Concept A</i> - Develop a simplified filing portal

Barrier or Issue	Related Concepts
	<ul style="list-style-type: none"> • <i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with return prep or VITA referrals • <i>Concept H</i> – Provide ongoing grant funding so outreach and filing assistance can be conducted year round • <i>Concept G</i> – Increase grant funding for community organizations to engage in outreach and free tax preparation services
<p>Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount which can be less than the return preparation or preparer fee.</p>	<ul style="list-style-type: none"> • <i>Concept A</i> - Develop a simplified filing portal • <i>Concept C-1</i> - Simplify the tax filing process: Modify Form 3514 • <i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with return prep or VITA referrals • <i>Concept G</i> – Increase grant funding for community organizations to engage in outreach and free tax preparation services • <i>Concept H</i> – Provide ongoing grant funding so outreach and filing assistance can be conducted year round
<p>Some taxpayers do not have all documents or records needed to file a return.</p>	<p>This barrier is not addressed by any concepts studied. Additionally, it was determined resolution of this barrier is outside of the control of FTB.</p>
<p>Some taxpayers do not have a bank account or stable address to receive a refund.</p>	<p>This barrier is not addressed by any concepts studied. Additionally, it was determined resolution of this barrier is outside of the control of FTB.</p>
<p>Some taxpayers do not have an ITIN and/or are unable to timely file for one.</p>	<ul style="list-style-type: none"> • <i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with return prep or VITA referrals • <i>Concept E-1</i> – Tax Identification Number: FTB issue unique identification number • <i>Concept E-2</i> – Tax Identification Number: Staff at other state agencies to obtain status as an acceptance agent to help taxpayer obtain ITIN • <i>Concept E, Alternative #1</i> – Tax Identification Number: Amend CalEITC statute to allow taxpayers until October 15th to apply for an ITIN (instead of being issued one) • <i>Concept G</i> – Increase grant funding for community organizations to engage in outreach and free tax preparation services • <i>Concept H</i> – Provide ongoing grant funding so outreach and filing assistance can be conducted year round
<p>Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.</p>	<p>This barrier is not addressed directly by any concepts studied.</p>

Barrier or Issue	Related Concepts
	FTB remains committed to working with all taxpayers to ensure their needs are addressed quickly, efficiently, and safely.
Some taxpayers do not have internet access.	<ul style="list-style-type: none"> • <i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with return prep or VITA referrals • <i>Concept G</i> – Increase grant funding for community organizations to engage in outreach and free tax preparation services • <i>Concept H</i> – Provide ongoing grant funding so outreach and filing assistance can be conducted year round
Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify as they do not have a filing requirement.	<ul style="list-style-type: none"> • <i>Concept A</i> - Develop a simplified filing portal • <i>Concept C-1</i> - Simplify the tax filing process: Modify Form 3514 • <i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with return prep or VITA referrals • <i>Concept G</i> – Increase grant funding for community organizations to engage in outreach and free tax preparation services • <i>Concept H</i> – Provide ongoing grant funding so outreach and filing assistance can be conducted year round
Some taxpayers distrust or dislike government, and/or are afraid to interact with government entities (not a trusted entity).	<ul style="list-style-type: none"> • <i>Concept C-2</i> - Simplify the tax filing process: State staff assistance with return prep or VITA referrals • <i>Concept D-1</i> – Education and Outreach: Partner with peer agencies to share data and conduct direct outreach to program participants • <i>Concept D-2</i> - Education and Outreach: Use data to contact individuals who appear eligible • <i>Concept F</i> – Create tax forms in multiple languages • <i>Concept G</i> – Increase grant funding for community organizations to engage in outreach and free tax preparation services • <i>Concept H</i> – Provide ongoing grant funding so outreach and filing assistance can be conducted year round
Some taxpayers do not file as they owe taxes or another debt that offsets any refund.	This barrier is not addressed by any concepts studied.

Concept A - Develop a simplified filing portal

Description:

Interested parties have suggested that FTB should develop a one-stop, easily accessible portal for all California residents. This portal could auto-fill eligible applicants' tax return forms using data already on file either with FTB or via data-sharing agreements with state agencies such as the Department of Social Services for people enrolled in safety net programs like CalFresh or Medi-Cal etc.

FTB currently has a tax return filing portal called CalFile which has existed in some form since 2003. In 2005, ReadyReturn was introduced as a pilot program. This was a new and innovative program focused on reducing the tax filing burden. FTB used information it already had, such as W-2 information, to provide taxpayers their completed returns for their final approval and filing with us. While limited in scope, the pilot was successful, and FTB adopted it as a formal tool that taxpayers could use after it was authorized by Assembly Bill 1394 (CH. 74, July 19, 2005). ReadyReturn leveraged the existing CalFile application.

To ensure a high level of accuracy of a pre-populated tax return and avoid disclosure issues, the ReadyReturn program used the following parameters.

Eligible taxpayers must have:

- Filed a prior year return.
- Full year residency in California.
- Met the criteria to use single or head of household filing status.
- Income only from wages.
- Only one employer.
- No more than five dependents.
- No credits other than the renter's credit.
- Claimed the standard deduction.

As ReadyReturn matured, FTB initial estimates identified about 2,000,000 individuals annually who fit within the eligibility parameters. As FTB received wage data from the Employment Development Department (EDD) throughout the first quarter of the year, FTB would pre-populate the 'readied' return and make it available for taxpayers to review, approve, and file. Generally, each year, FTB saw over 50% of eligible taxpayers had already filed on their own in January or February before FTB could finalize a proposed pre-populated return. Of the remaining 1,000,000 returns that were readied for taxpayers, about 100,000 taxpayers choose this filing method.

In 2013, FTB began reviewing the ongoing process of ReadyReturn. With the pending implementation of MyFTB under the Enterprise Data Revenue (EDR) project, FTB would have the potential to offer pre-populating of information for Californians if they established a MyFTB account and qualified to use CalFile. This greatly expanded the number of taxpayers eligible for this pre-populated return filing service and also allowed taxpayers to file prior year returns. As a result, FTB decommissioned the ReadyReturn application at the end of the 2014 return process year and began utilizing CalFile, with expanded parameters, exclusively as a simplified filing portal for the California return. CalFile included the ability to pre-populate data if taxpayers registered and obtained a MyFTB account.

The timing of CalFile's necessary data inputs remains. Those taxpayers wanting to file in January or February may not be able to use the pre-population feature of CalFile if FTB has not yet received and made consumable their relevant tax data such as wages and withholding. Most of these data sets are not even required to be filed with the tax agencies across the nation until the end of January, and some income reporting occurs throughout filing season.

CalFile is available for over half of California filers who have an obligation to file with California or otherwise choose to file. The main qualifications for taxpayers filing with the status of Single, include a limit on adjusted gross income (AGI) of \$203,341; or for taxpayers filing a joint return, AGI can be up to \$406,687. Additionally, federal AGI must be greater than \$0. In recent years, about 125,000 taxpayers take advantage of CalFile annually to file their state return.

FTB currently supports CalFile with data owned by FTB. Interested parties have suggested FTB could enhance this process by accessing and utilizing data owned by peer state agencies that administer public assistance programs. As discussed more in Concept B, FTB has worked with our peer state agencies and has found that the data accessible to these agencies primarily includes 'household family units', but does not include information on the relationship between the household family members. As a result, while the information has value, it does not allow FTB to understand the 'tax unit', including desired tax filing status or number of dependents. All other information to support eligibility for the public assistance programs, such as income information, is retained by the local county or non-profit agencies responsible for administering the programs. As authorized by statute, many of these agencies utilize FTB data to validate the data they receive from program participants. As a result, it is

unclear what new income data might be available at the local agency level that FTB does not already have access to.

Benefits:

- Many taxpayers, including most if not all of those qualifying for EITC, are able to file a free income tax return with California utilizing CalFile.
- CalFile is available year round beginning no later than mid-January and closing no sooner than mid-December.
- If the taxpayer is registered for MyFTB, data that FTB has and is available will be pre-populated for the taxpayer to validate or correct as necessary.
- Over the years, for those taxpayers using the service and providing feedback, they highly rate the experience and appreciate the service.

Risks/Challenges:

- CalFile does not support the filing of a federal tax return that is necessary to gain access to federal tax credits.
- CalFile, as required under California law, generally starts with federal AGI which requires the taxpayer to prepare the federal return to best utilize the CalFile program.
- Taxpayers may be better served by using other existing free file tools because these will prepare both federal and state tax returns for free for many Californians who have simple tax returns and income below certain thresholds. These software products will also pre-populate information from prior year returns that likely stays static year to year - including personal information, dependents, employer information - and requires the taxpayer to refresh or populate only data unique to a year, such as wages. Once the federal return is done, only a few more questions are asked to complete the state tax return.
- Both FTB and the IRS market free tax preparation tools on their websites that allow taxpayers to complete of both their federal and state tax return. FTB's website also includes a link to the IRS-supported Free File Alliance portal, which offers free access to brand-name tax software to anyone who makes \$72,000 or less.
- FTB can receive relevant information return data related to income over the entire first half of the year and not all income, such as self-employment income, is subject to reporting or is not reported timely or at all as required. FTB does not receive extensive data on expenses that could trigger allowable deductions or tax credits. The taxpayer will retain full responsibility to modify the pre-populated return to report these items.

- Enhancements to the CalFile program could generate concerns from tax industry professionals who have long advocated that tax administration and tax preparation are activities that should not be engaged in by a single agency due to an inherent conflict of interest.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

Partially Addressed – State return solution only

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.

Barriers Not Impacted or Outside of the Scope of this Concept

- Materials are not available in multiple languages.
- Some taxpayers are not aware of filing requirements or available tax credits.
- Some taxpayers do not have all documents or records (driver's license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not have internet access.

- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 6. Administration:

Barriers	Information
Complexity of Concept (Minor, Fair, Significant)	N/A – Service implemented
Time to implement Concept	N/A
FTB resources needed to implement	N/A
Statewide resources needed to implement	N/A
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	N/A

Concept B - Pre-populate state income tax returns

This concept will discuss FTB's efforts to work closely with our peer state agencies to understand data they have and how, or if, it could be linked to FTB data to determine CalEITC eligibility of taxpayers, compute an estimated credit amount, or complete a return on behalf of the taxpayer.

Description:

Interested parties have suggested state agencies can work together as cohesive partners to identify and assist taxpayers who have a tax return filing obligation or are otherwise eligible for CalEITC or other state or federal tax benefits, such as the newly enhanced child tax credit, designed to address financial burdens faced by lower income individuals and families. Key to this endeavor could be the aggregation of data maintained by multiple state agencies to identify taxpayers most likely eligible for CalEITC and other federal or state tax credits, and taking steps to assist them with filing a tax return and claiming the credits to which they are entitled.

During this study, FTB worked closely with the California Department of Social Services (CDSS) and the Department of Health Care Services (DHCS) to understand the data they have and how it correlates or enhances FTB's existing data sets. As described in Exhibit 2, FTB also engaged multiple other peer state agencies in preliminary discussions on data they had that could potentially be used to enhance FTB's data sets.

The amount of a CalEITC credit generally depends on earned income, federal AGI, and family size. The following information is necessary to compute the CalEITC:

- Earned income, generally W-2 wages, salaries, tips, and self-employment income.
- Federal AGI.
- Investment income (generally interest, dividends, and capital gain net income).
- Valid Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN) for the taxpayer, taxpayer's spouse/registered domestic partner (RDP), and any qualifying child.
- For a qualifying child, if any, the name, date of birth, relationship to the taxpayer, physical address, valid identification number, and the number of days the child lived in California with the taxpayer.

Concepts and barriers were identified that can be discussed further to best position the state in creating cohesive partnerships to ensure every Californian that is eligible for CalEITC or other state or federal tax credits has the opportunity to be aware of the credits and understands how to file tax returns to claim the credits.

Data sharing between state agencies would require appropriate statutory authority and further reviews with each agency may be warranted to ensure no federal rules would be violated with these new data sharing agreements.

Resources may also be needed in the various agencies to ensure staff levels are sufficient to allow for timely sharing of quality data.

FTB would like to thank both CDSS and DHCS for working with FTB regarding their respective data sets for purposes of facilitating this study and understanding opportunities that exist. CDSS shared their data with FTB under existing statutory authority and with this data, FTB was able to observe similarities and differences in data sets owned by CDSS and FTB to determine how co-mingling the data could be beneficial. While FTB and DHCS did not exchange data, we did work together to understand their data rules and data fields they collect, retain, and validate to support the state's Medi-Cal program. With our work with both entities, many of the same data elements and gaps existed when comparing CDSS and DHCS program data specifications.

Much of the data used to determine eligibility for public service programs is retained by the local agencies and is not readily accessible by the administering state agency. If efforts adopted are supported by data to focus on potentially eligible CalEITC taxpayers, further discussions would be needed to understand impacts to, and resources for, these local agencies.

A key finding is that the definitions of 'household' for the public assistance programs differ significantly from the definition of a tax unit or dependent under tax law. For example, a CalFresh household is a group of people who prepare food together, while a tax unit is an individual or married couple and any dependents they can claim.

Exhibit 3 documents our full study and observations of CDSS program data. The data provided by CDSS has detailed information on households but lacks information important for tax administration. The following charts document key observations:

Table 7. Data Ownership – where is information obtained and retained

Category	FTB	Public Assistance Program Administration (State)	Public Assistance Program Administration (Local)
Personal Identifying Information (PII) on members in the Household Unit (not equivalent to tax unit)	N/A	Yes	Yes
PII on Tax Unit	Once return is filed	N/A	N/A
Income Data	Received throughout filing season and after Received once return is filed	N/A	Some – submitted upon application which is subject to verification against FTB data.
Expense Data	Once return is filed	N/A	Some – submitted upon application

Data Observations (CDSS program data review)

Table 8. Comparison of CDSS Program Information to FTB returns filed:

Percentage of Time Observed	Metric Observed
86%	Percentage of CDSS program ‘households’ that filed one tax return.
62%	Percentage of time the entire program ‘household’ was included in the tax unit.
57%	Percentage of time dependents claimed on tax return matched dependents in the CDSS program ‘household’.
72%	Percentage of time EDD wages reported on the tax return and W-2 were +/- \$500 for the tax filing unit. <ul style="list-style-type: none"> A difference of plus or minus can create a significant over- or understatement of CalEITC under current law.

Percentage of Time Observed	Metric Observed
50%	<p>Percentage of time EDD wages reported on the tax return matched federal AGI within +/- \$500 for the tax filing unit.</p> <ul style="list-style-type: none"> A difference of plus or minus can determine eligibility or not for CalEITC and/or create a significant over- or understatement of the CalEITC under current law.
37%	<p>Percentage of time when using CDSS and EDD data that FTB was able to accurately estimate the amount of CalEITC credit reported on the tax return.</p> <ul style="list-style-type: none"> However, 68% of the time FTB could accurately estimate the CalEITC credit amount within +/- \$100 of what was reported on the tax return.

Table 9. Extrapolation of Observed Results for Nonfilers Identified in the CDSS data:

Observation	Metric Observed
3 million	Number of individuals enrolled in a CDSS program who were not associated with a filed tax return.
62%	Of 3 million participants not associated with a filed return, the share over 18 years of age who may have a filing requirement.
1.45 million	Number of potential nonfilers using the 'single' filing status. This estimate eliminates individuals 18 and under and multi-adult household units as FTB cannot credibly associate the adults into a tax unit, such as Married Filing Joint etc., without further information from the taxpayer.
350,000	Of the 1.45 million tax units above, the number of units with wages reported based on FTB data. Additional individuals may have had self-employment income which cannot be obtained prior to the filing of a tax return.
270,000	Number of tax units above that met income requirements to qualify for CalEITC without regards to understanding self-employment income which cannot be obtained prior to the filing of a tax return.
85,000	Number of individuals likely eligible for a combined CalEITC and YCTC credit of \$50 or less.

Observation	Metric Observed
72,000	Number of individuals likely eligible for a combined CalEITC and YCTC credit between \$51 and \$100.
58,000	Number of individuals likely eligible for a combined CalEITC and YCTC credit between \$101 and \$200.
27,000	Number of individuals likely eligible for a combined CalEITC and YCTC credit between \$201 and \$1,000.
30,000	Number of individuals likely eligible for a combined CalEITC and YCTC credit over \$1,000.

With an understanding of various data sets, the value of the data and gaps remaining, discussions included using this data to:

- Determine eligibility for CalEITC.
- Determine a proposed CalEITC credit amount.
- Prepare a proposed state tax return to claim CalEITC credit.

Note: Additional opportunities to use the data to conduct outreach to public assistance program participants or nonfilers is discussed in Concept D.

Benefits:

- Using aggregated data to determine eligibility, a potential credit amount, or preparing a proposed state tax return would simplify the process for claiming CalEITC.

Risks/Challenges:

- Significant gaps exists in the data necessary to credibly determine eligibility or a proposed credit amount for a large portion of taxpayers before they file.
- Erroneous assumptions can lead to understated CalEITC payments where the taxpayer may not get the full amount owed if they don't correct the information, or an overstatement of the credit that the taxpayer would have to pay back if they don't correct or add in additional data.
- Some taxpayers could be confused with assumptions made resulting in them being fearful to claim the credit or engaging a tax professional to assist.
- Adopting this concept for CalEITC would not eliminate the need for the taxpayer to file a federal tax return to claim the EITC or other federal tax credits such as the Child Tax Credit.

- Many peer agencies noted that sharing the data amongst state programs could be in violation of federal law and legal counsel should be engaged to ensure any desired data sharing can occur.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Some taxpayers are not aware of filing requirements or available tax credits.

Partially Addressed

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.

Barriers Not Impacted or Outside of the Scope of this Concept

- Materials are not available in multiple languages.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Some taxpayers do not have all documents or records (driver's license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not have internet access.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).

- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 10. Administration:

Barriers	Information
Complexity of Concept (Minor, Fair, Significant)	Significant
Time to implement Concept	2 – 3+ years
FTB resources needed to implement	Yes. Depending on extent of data sharing and actions required as a result of sharing data, resources could be significant.
Statewide resources needed to implement	Yes. Depending on extent of data sharing.
Data Availability (timing, accuracy, comprehensiveness)	Data accuracy and comprehensiveness were not enhanced as a result of this review primarily due to key differences between the definition of a 'household unit' and 'tax unit'
Statutory authority	No statutory authority exists to support data sharing and ensuring the use of the data in this manner.

Concept C - Simplify the tax filing process

This concept addresses simplification of tax forms for taxpayers to claim CalEITC as well as opportunities for peer state agencies to assist in return preparation for their clients or refer taxpayers to free filing tools or community based organizations/VITA locations for tax return preparation and assistance.

Concept C-1: Modifying Form 3514

Description:

Currently taxpayers claiming CalEITC must file FTB Form 3514 (California Earned Income Tax Credit) and, if they utilize a tax professional to prepare their return, they must also file Form 3596 (Paid Preparer's due Diligence Checklist for California Earned Income Tax Credit) with their tax return. The FTB Form 3514 collects information used to calculate the credit considering income types and limits as required by statute. The form also assists taxpayers in identifying eligible dependents as defined within CalEITC statute, which substantially conforms to federal EITC rules. Dependents can increase the amount of CalEITC taxpayers are eligible for and trigger the Young Child Tax Credit (YCTC). Form 3596 allows for the attestation of the preparers that they engaged with due diligence in determining the eligibility of the taxpayer to claim CalEITC.

Under IRS rules, taxpayers must compute the federal EITC amount utilizing instructions in Publication 596 (Earned Income Credit (EIC) and on relevant worksheets within the Form 1040 instructions booklet information, which allows for the calculation of the credit considering income types and limits as required by statute. If taxpayers have a child(ren), they must then complete and attach Schedule EIC (Earned Income Credit, Qualifying Child Information), which assists taxpayers in identifying eligible dependents as defined under the federal EITC statutes. Finally, as required under statute, federal Form 8867 (Paid Preparer's Due Diligence Checklist) must be filed if the return was prepared by a paid preparer. This form allows for the attestation of the preparers that they engaged with due diligence in determining the eligibility of the taxpayer to claim the EITC.

CalEITC substantially conforms to the federal EITC as to the computation of the credit but California statutes expand eligibility of taxpayers primarily based on age and for ITIN holders. Maximum income levels for credit eligibility also differ significantly between federal and state law. A final important note is that for both CalEITC and EITC, the definition for 'qualified dependent' differs from the definition supporting other incentives such as the head of household filing status, dependent exemption or other child oriented credits.

In 2018, the Treasury Inspector General for Tax Administration (TIGTA) issued a report on ways the IRS could increase EITC participation by modifying the Form 1040. Citing facts from the 2014 tax year, the report notes an estimation that only 79% of eligible taxpayers claimed the EITC, claiming about 85% of the estimated value of the credit. The IRS committed to reviewing the EITC forms and worksheets but noted the following: the calculation of the credit is complex; increasing the size of the Form 1040 could have a detrimental effect or cause confusion for all taxpayers; and the IRS needed the taxpayer to provide key data necessary to compute eligibility for the credit and calculation. The IRS also noted the continued concern with the improper payment rate for EITC, which is typically near 24% annually. To date, the IRS has not modified the federal tax tools for claiming EITC.

In 2020, with the first ever Economic Impact Payments (EIP) being established, the IRS issued Revenue Proclamation 2020-28, which outlines a 'simplified filing process' solely for taxpayers who *otherwise do not have a filing requirement* so that they could easily obtain the stimulus funds. In 2021, Revenue Proclamation 2021-24 was issued to authorize this process again for ongoing stimulus payments and the newly enhanced refundable, and subject to partial advance payment, Child Tax Credit (CTC). This simplified filing process allows the taxpayer to complete the Form 1040 by including \$1 as income and \$1 as an expense so the return can be processed and validated through the IRS's processing systems. Speculation has occurred that this form of filing could and will be expanded to allow claiming the EITC. At this point that has not occurred and FTB will continue to monitor this situation. Based on prior statements made by the IRS, and published in various TIGTA reports, the IRS will likely remain concerned with their lack of robust information being available at all, or in a timely manner, to determine the EITC, which matches FTB's concerns. Therefore, it is unclear how this simplified return process as adopted to support the EIP and CTC would be utilized to compute the EITC, which is based on income amounts and the number of qualified dependents.

FTB could substantially mirror the federal process and create a calculation worksheet in the Form 540 instructions, and modify Form 3514 to only provide key information on summary income items (lines 2, 4, 18, 18b, and 18e), non-resident information (parts VI and VIII), qualified dependents (part III), and the calculation of the YCTC (Part VII). Additional select fields could also be added to the 540 form series to capture additional information for calculating CalEITC, and include an indicator check box for the taxpayer to indicate whether they

were aware of CalEITC. Over 95% of taxpayers claim CalEITC utilizing tax software and the aforementioned modifications would likely be non-observable to them because the credit is determined by answering a series of questions provided within the tax software.

Benefits:

- Requiring the taxpayer to check a box on the return indicating they are aware of CalEITC will ensure taxpayers are aware of the credit.
- Increased number of filers claiming the credit.

Risks/Challenges:

- Form 540 increases in length, which increases processing time.
- Without robust information, fraud committed by bad actors may increase.
- Given the calculation of the credit remains the same, costs to prepare and file a return may not decrease even with the modifications.
- Some taxpayers eligible for CalEITC and filing a paper return could be confused by the changes, leading to errors in calculating the credit or determining eligibility.
- The modifications (e.g. the check box) would apply for all taxpayers causing potential confusion and resulting in increased errors.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Some taxpayers are not aware of filing requirements or available tax credits.

Possible if tax preparation costs are reduced due to modified forms:

- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.

Barriers Not Impacted or Outside of the Scope of this Concept

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Materials are not available in multiple languages.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Some taxpayers do not have all documents or records (driver’s license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not have internet access.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 11. Administration:

Barriers	Information
Complexity of Concept (Minor, Fair, Significant)	Fair
Time to implement Concept	1 – 3 years
FTB resources needed to implement	Depending on changes adopted, annual operating costs could increase up to \$5 million with one time implementation costs of up to \$10 million.
Statewide resources needed to implement	N/A
Data Availability (timing, accuracy, comprehensiveness)	Some data received with the filed return would be lost with implementation of this concept.
Statutory authority	N/A

Concept C-2: State staff assistance with return prep or VITA referrals

Description:

The IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs offer free basic tax return preparation to qualified individuals.

The VITA program has operated for over 50 years. VITA sites offer free tax help to people who need assistance in preparing their own tax returns, including:

- People who generally make \$57,000 or less
- Persons with disabilities; and
- Limited English-speaking taxpayers

While the IRS manages the VITA and TCE programs, the VITA/TCE sites are operated by IRS partners and staffed by volunteers who want to make a difference in their communities. The IRS-certified volunteers who provide tax counseling are often retired individuals associated with non-profit organizations that receive grants from the IRS. VITA/TCE services are not only free, they are also a reliable and trusted source for preparing tax returns. All VITA/TCE volunteers who prepare returns must take and pass tax law training that meets or exceeds IRS standards. This training includes maintaining the privacy and confidentiality of all taxpayer information.

Annually, volunteers file federal and state tax returns for over 300,000 Californians. Statistics included in Table 3 do show a decline in VITA services over the last two years predominantly understood to be related to COVID impacts of in-person services and challenges that can present to moving a service such as VITA to an online process.

Additional information on VITA and overcoming barriers is also discussed in Concepts G and H which addresses the expansion of VITA outreach efforts through increased grant funding.

Many state agencies are responsible for administering public assistance programs for struggling Californian's who need help with life's necessities, including obtaining food, finding affordable housing, getting medical insurance, or looking for a job. To qualify for these programs, in-person interviews are required to establish eligibility and to view and retain key information needed to facilitate program participation. Many of these individuals likely qualify for CalEITC if they have income that doesn't exceed certain thresholds.

With face to face meetings already occurring with program participants, and documents supporting public assistance program participation overlapping with data necessary to compute CalEITC or file a tax return, one suggestion is local agencies that assist clients during certain parts of the year could also assist in return preparation. They could also assist in filing an application for the issuance of an ITIN, or refer these clients to free filing tools or community based organizations/VITA locations for free tax return preparation and assistance.

Many state agencies responsible for administration of public assistance programs rely on local government or other service agencies such as non-profits to administer these various programs in local communities. These local agencies would be a resource to filter information or services through to assist citizens in face to face interactions so they can understand and meet their federal and state tax obligations and take advantage of various tax credits. In the event these local agencies are engaged to assist in these strategies, further discussions would be needed to understand impacts to, and resources for, these local agencies.

Benefits:

- Taxpayers are able to understand their tax obligations and file a return to receive tax credits they qualify for.
- Tax return preparation is free to public assistance program participants.
- Referring to, or making an appointment at a VITA location for return filing assistance is a crucial first step to action.
- Taxpayers are eligible to receive assistance in applying to the IRS to receive an ITIN.

Risks/Challenges:

Return filing – federal and state

- In general, filing a tax return is perceived as a complex task. VITA volunteers must be able to pass an IRS certification exam to prove that they are knowledgeable enough about tax laws to prepare accurate returns. Extensive annual training would likely be needed for staff that assist in return preparation.
- To assist a taxpayer in obtaining a federal ITIN, staff would be required to complete additional training of 20+ hours plus undergo an extensive background check before being authorized as an Acceptance Agent.
- A comprehensive legal analysis of the state paying staff to 'prepare and file a tax return' would be necessary. Generally, 'paid preparers' are

required to have certain levels of training and acknowledge their required due diligence during return preparation and have significant responsibility, including financial, for any errors or omissions that could occur during return preparation.

- Employee classifications should be reviewed to ensure responsibilities are commensurate with job duties and expected knowledge and skills.
- The IRS should also be consulted to ensure returns prepared by these staff members will be accepted by the IRS. The IRS has strict requirements for all agencies that are authorized to file returns on behalf of taxpayers. These same restrictions are also applicable for FTB processing activities as FTB follows the IRS.
- In general, assisting a taxpayer in applying for an ITIN also necessitates preparing and filing a current year tax return. If tax preparation is barred under the theory of a 'paid preparer,' in general assisting a taxpayer to obtain an ITIN will likely also be barred. See additional discussion in Concept E on this issue.

Refer or assist in establishing an appointment at a VITA site

- Tax return preparation typically occurs January through April for the vast majority of Californians. Taxpayers may not be interested in a referral depending on the time of year.
- VITA is not currently a year round service in many locations. See Concepts G and H for further discussion on the ability to support this function year-round.
- Insufficient VITA volunteers could mean a lack of service.
- Taxpayers may not follow up on the referral or appointment, missing out on the opportunity to file a return and obtain tax credits for which they are eligible.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Some taxpayers are not aware of filing requirements or available tax credits.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Some taxpayers do not have internet access.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).

Barriers Not Impacted or Outside of the Scope of this Concept

- Materials are not available in multiple languages.
- Some taxpayers do not have all documents or records (driver's license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 12. Administration:

Barriers	Information
Complexity of Concept (Minor, Fair, Significant)	Significant
Time to implement Concept	2+ years
FTB resources needed to implement	Unknown and dependent on assistance strategy adopted at local level.
Statewide resources needed to implement	Significant resources would likely be necessary at the local government level to support return preparation. Likely to exceed \$10 million annually.
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	None identified to support assistance strategy for local agencies to prepare tax returns

Concept D – Expand education and outreach to potentially eligible CalEITC taxpayers

This concept discusses FTB’s efforts to work closely with our peer agencies to understand how or if they could incorporate various education and outreach strategies into their current operations and what education and outreach opportunities exist that FTB could perform to eliminate potential overlap.

Concept D-1: Outreach opportunities by state staff administering public assistance programs

Interested parties have suggested that FTB and our peer state agencies, administering public assistance programs, could share data to understand filer and nonfiler populations and conduct direct outreach pre and post-filing season to their program participants annually to encourage filing and offer assistance.

Under California Revenue and Taxation Code Section 19853, all employers and public assistance program administrators must notify their clients of CalEITC at least once during January – April of each year. Notice may be done by text, email, letter, phone, or in-person communication.

FTB has identified the following potential universes in public assistance programs. It is understood that there is a significant amount of overlap among the various programs clientele:

- CalWorks: 1.3 million participants (2018 and 2019 program years)
- CalFresh: 5.5 million participants (2018 and 2019 program years)
- Medi-Cal: 7.2 million participants (2018 program year)

Information for other assistance programs, such as those receiving housing assistance, is unknown, but there is likely a substantial overlap amongst those various programs as well.

A recent analysis conducted by FTB staff allowed for a comparison of CDSS program information to FTB returns filed and showed that 45% of CalFresh households did not file a state tax return in 2019, with many not having a filing requirement. Exhibit 3 documents the complete study and observations of CDSS program data.

AB 107, passed in 2020, gave legislative authority for FTB to disclose individual income tax return information for tax years 2018 and 2019 to CDSS for purposes of informing program participants of federal stimulus payments. CDSS program participant information was also matched against FTB 2018 and 2019 tax year

filing records to identify nonfilers and conduct targeted outreach regarding federal stimulus payments and also CalEITC for the 2020 tax year. Results of those efforts cannot be understood until the 2020 tax year returns complete processing near the end of 2021.

Information on nonfilers for other assistance programs is not currently known. Still, it could be identified by comparing public service program participant records and FTB return filing records once information is known, which generally occurs several months after the filing season concludes. A substantial overlap of nonfilers amongst the various programs would continue to exist.

In 2018 and 2019, the California Policy Lab (CPL) worked with the FTB and CDSS in several outreach campaigns using low-cost text messages and letters to increase awareness and claims of the state and federal EITC Credits in California. After sending 160,000 letters and nearly 1.5 million texts, findings from this report indicated that none of the outreach efforts led to increased tax filing. Overall, the nonresponse rate to the outreach was very high.

Benefits:

- Letters issued pre-filing ensure taxpayers can understand their tax obligations and file a return to qualify for tax credits.
- Letters issued post-filing season to nonfilers could serve as a valuable reminder to ensure the taxpayer files their return and claim tax credits for which they are eligible.
- Taxpayers could learn about free tax preparation services in their area.
- Using a trusted messenger could encourage taxpayers to take action.

Risks/Challenges:

- Information to identify eligible CalEITC recipients pre-filing would rely on participants eligible for public assistance programs which can exceed 7 million, and assumes that data is analyzed to avoid multiple outreach efforts to the same individual. This data set cannot be analyzed against FTB return filing history or W-2 files until February through April of a tax season. For the outreach to be most effective, it should occur in early January. Outreach will occur to individuals who actually are not eligible for CalEITC, would already file without outreach, or could cause the taxpayer to seek the assistance of a tax professional (at a fee) to file a return they may not have needed to file.
- Information to identify potential eligible CalEITC recipients that are nonfilers would not be readily available until about six months after the

conclusion of the return filing period. (FTB can identify nonfilers with some level of accuracy for the 2020 tax return by June of 2022.)

- Outreach alone may not be sufficient to improve take-up of the EITC in California among non-filing populations.
- Coordination amongst state agencies is necessary to avoid multiple state agencies from reaching out to the same taxpayer.
- Data sharing prohibitions may exist and will need further discussion and analysis. Most public assistance programs are managed under federal or state laws with restrictions on data sharing and use. FTB also has data restrictions in place via IRS procedures/federal laws.
- Outreach materials may not be in the best language for recipient to understand what is being shared.
- Outreach materials would need to be carefully worded to avoid any disclosure issues. It should be assumed bad addresses will exist and recipients that were not intended to receive the outreach will receive it.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Some taxpayers are not aware of filing requirements or available tax credits.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).

Barriers Not Impacted or Outside of the Scope of this Concept

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Some taxpayers do not have internet access.
- Materials are not available in multiple languages.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly

burden or the taxpayer does not think they qualify because they do not have a filing requirement.

- Some taxpayers do not have all documents or records (driver’s license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 13. Administration:

Barrier:	Information
Complexity of Concept (Minor, Fair, Significant)	Minor
Time to implement Concept	2 years
FTB resources needed to implement	FTB would need resources to identify nonfilers by comparing peer agency data to FTB’s filing population. FTB resources would also ensure peer agencies do not have duplicative information to avoid overlapping outreach efforts. Cost would approach \$500,000 - \$1,000,000 annually.
Statewide resources needed to implement	Resources for peer agencies would likely be necessary to allow state staff to conduct outreach activities and assistance. Costs are unknown but are likely to be substantial if outreach is conducted through the mail. Local agencies may also need resources if the data they retain is used to support this concept. Costs would likely be substantial.

Barrier:	Information
Data Availability (timing, accuracy, comprehensiveness)	Aggregation of data sets could occur which allows for the identification of nonfilers that have income below a certain threshold indicating a possibility that a taxpayer is eligible for CalEITC. This would allow for targeted outreach by trusted partners.
Statutory authority	None exists authorizing data sharing privileges between FTB and other peer agencies to support the outreach for income tax purposes.

Concept D-2: Outreach opportunities by FTB

FTB could use in-house information and information retained by peer state agencies to contact filers who appear eligible but failed to claim the credit and nonfilers who appear eligible based on available information but failed to file a return. Information in Concept B indicates the potential lack of accuracy of any information we would rely on. These data gaps would exist with any source used.

In a review of recent returns, almost 1,000,000 tax returns, with data indicating that they appeared to be eligible for CalEITC, did not claim the credit. Over 96% of these returns were efiled using tax return preparation software, with almost 60% filed by a tax professional. FTB could identify these taxpayers potentially as early as August of the tax return filing year (August 2022 for the 2021 tax year) or as late as June of the following year. FTB could send a communication to these individuals to alert them they may be eligible for CalEITC or other credits at the state or federal level. The communication would either provide filers who failed to claim the credit with simplified filing tools or, instructions for how they utilize free services to amend their federal and state tax returns.

Both FTB and the IRS have engaged in numerous outreach efforts to potentially eligible taxpayers in the past. These efforts, in general, have not been largely successful. Taxpayers willing to respond suggested that in many cases the tax credit amount was too small to bother with, the credit was too small considering the tax return preparation costs, the taxpayer had information or had worked with a tax professional concluding they were not eligible for the credit, they

didn't believe the outreach was authentic and perceived it as a scam, or they didn't want to take the time to file.

When CalEITC was first adopted, FTB attempted to identify eligible candidates and reached out to 90,000 individuals who had not filed state taxes in prior years but appeared to potentially qualify for CalEITC based on their 2014 federal tax information. Fewer than 1,200 of those contacted filed a state tax return and, of these, only 15 taxpayers, claimed CalEITC.

In 2016, at the request of the Legislature, FTB conducted a study on 53,750 paper tax returns that had been filed, did not claim CalEITC but appeared eligible. FTB reached out to these taxpayers with simplified amended return, noted an estimated credit amount and included forms in both English and Spanish. As a result of this outreach, 11,300 taxpayers responded to our outreach with approximately 7,500 taxpayers qualifying for CalEITC totaling \$4.5 million in refunds. The remaining taxpayers were non-responsive to our outreach.

In 2018, TIGTA issued a report on ways the IRS could increase EITC participation. The report cited facts from the 2014 tax year, and included an estimation that only 79% of eligible taxpayers claimed the EITC, claiming about 85% of the estimated value of the credit. Additionally, data suggested 1.7 million taxpayers across the nation filed but did not claim the credit although they appeared eligible to do so. Factors such as lack of awareness, high tax preparation costs, fear of being audited, stigma/pride, or complexity of the calculation were attributed to this gap. Annually, the IRS performs outreach on these filers that didn't claim the credit based on the ability of the IRS to determine true eligibility. For tax year 2014, the IRS reached out to 361,000 of these taxpayers (95,000 notices to taxpayers with children, and 266,000 notices to taxpayers with no children.) 175,000 (less than 50%) of these taxpayers responded to the IRS and claimed the credit using the forms the IRS provided; 28% of taxpayers with children responded and 57% of taxpayers without children responded. The IRS noted they did not have sufficient information to determine eligibility with any credibility for the remainder 1.3 million taxpayers.

In 2020, in partnership with FTB, CPL conducted a follow-up survey to a subsample of individuals contacted during the 2019 outreach experiment noted in Concept D-1, encouraging the take-up of state and federal EITCs. Survey letters were sent to roughly 28,000 individuals who were part of the experiment but did not appear on a tax return. Half of the individuals received a letter inviting them to complete an online survey, and the other half received a letter

with a paper survey and a prepaid envelope to submit their responses. The survey aimed to understand their perceptions of CalEITC, the tax filing process, and trusted messengers. FTB received 60 survey responses, a 0.2% response rate with 73% of survey responses submitted by mail. As the survey responses were statistically invalid, further analysis was not conducted. One reason for a low response rate on this survey was wrong addresses used for nonfilers. Issues with bad or outdated addresses for nonfilers continue to exist today.

In reviewing FTB in-house data for the 2018 and 2019 tax year, for each year, on average, FTB has identified 2.5 million individual taxpayers with a W-2 record(s) of less than \$30,000 in wages, which did not file a return. As statutorily defined, this group is potentially eligible for CalEITC and would likely substantially or entirely overlap with program participants in the public assistance program. While this group has been identified, information on 1099 income or self-employment income is not available, nor is information on the tax unit (for example determining married individuals and dependents) available to further reduce the universe to include only those most likely to be eligible for CalEITC. Additional information from our peer state agencies may be of some assistance in validating addresses and family units; however, the limitations of this data are similar to what was described in Concept B. Income/expense information to validate this group further is likely not available from our peer state agencies at all or timely, but some income information, that could further refine the population to those most likely eligible for CalEITC may be retained at the local agency level that assists in the administration of the public assistance programs. Additionally, information becomes available for the first time once a tax return is filed, such as identifying the tax filing unit. With these gaps, FTB estimates the 2.5 million individuals identified could be overstated by greater than 50% as to those most likely eligible for CalEITC and many of these taxpayers would likely be eligible for very low credit amounts unless they also qualified for the YCTC.

In recent years, FTB has also been informed of outreach efforts other states perform for their taxpayers that file but do not claim the EITC under the relevant state law but otherwise appear eligible. Both programs in New York and Illinois have been reviewed and both rely on federal data and in many situations authorizes the state EITC based on the federal EITC allowed by the IRS. These programs are distinguishable from activities FTB could do because both of these states EITC programs are simply a percentage of the federal EITC credit. California tax law requires its own calculation for CalEITC and additional (age test) and fewer taxpayers (income test) qualify for CalEITC than for the federal

EITC. These outreach programs are also conducted months after the filing season ends.

Benefits:

- Communications issued post-filing season to nonfilers could serve as a valuable reminder to ensure the taxpayer files their return and claim tax credits for which they are eligible.
- Providing simplified tools for filing an amended return where a taxpayer filed but failed to claim the credit would ensure that filers do not miss the credit.
- Taxpayers could learn about free tax preparation services in their area.

Risks/Challenges:

- Information to identify eligible CalEITC recipients post-filing is not readily available with any significant level of accuracy from any source. Outreach could occur to individuals who do not qualify for CalEITC or could cause the taxpayer to seek the assistance of a tax professional (at a fee) to file a return they may not have needed to file.
- Any outreach conducted would focus primarily on CalEITC tax credit to work with taxpayers to claim this credit. While outreach on the federal tax credits could be provided, the taxpayer would need to file any relevant federal returns to claim the federal credits.
- Data sharing prohibitions may exist and will need further discussion and analysis. Most public assistance programs are managed under federal or state laws with restrictions on data sharing and usage. FTB also has data restrictions in place via IRS procedures/federal laws.
- FTB historically has reached out with the mailing of letters as cell phone numbers to support texts or phone calls are not a required data element to file a tax return. FTB would rely on other agencies' data to obtain this information or would need to engage in outreach with a more costly method – paper and mailing.
- Contact information for nonfilers may be outdated or nonexistent, making it difficult to reach this population.
- Outreach to filers who didn't claim the credit could result in contact to a tax professional, incurring fees higher than the potential credit for the simplified amended process.
 - Additionally, allowing a credit later on a return filed by a professional preparer may generate significant concerns by the

preparer as they could perceive this as jeopardizing or infringing upon the client relationship.

- o Conducting outreach to filers regarding a missed tax credit could encourage taxpayers to not file in the first place or not claim the credit as FTB will allow this post-filing. FTB would note California's tax system is voluntary and presumes accurate returns are filed.
 - The taxpayer's assumption that we will identify the issue during any post-filing evaluation may be incorrect.
 - Based on published reports, the IRS annually reaches out to less than 30% of filers that appear eligible due to a lack of credible information supporting clear eligibility for the federal EITC.
- Outreach alone may not be sufficient to improve take-up of CalEITC in California among non-filing populations
- Outreach materials may not be in the best language for the recipient to understand what is being shared.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Some taxpayers are not aware of filing requirements or available tax credits.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).
- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.

Barriers Not Impacted or Outside of the Scope of this Concept

- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Some taxpayers do not have internet access.
- Materials are not available in multiple languages.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals,

filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.

- Some taxpayers do not have all documents or records (driver’s license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 14. Administration: Outreach to Nonfilers (2.5 million universe)

Barriers	Information
Complexity of Concept (Minor, Fair, Significant)	Significant
Time to implement Concept	1+ year (FTB data only) 2-3 years (combined data with peer agencies)
FTB resources needed to implement	Costs are dependent on the size of the universe and program parameters but would likely approach \$8 million a year (including postage) with onetime IT costs of up to \$10 million.
Statewide resources needed to implement	Resources for peer agencies could be necessary to allow for data sharing efforts with FTB. Resources for local agencies may also be needed if data they retain is used to support this concept. Costs would likely be substantial.
Data Availability (timing, accuracy, comprehensiveness)	Aggregation of data sets could occur which allows for the identification of nonfilers that have income below a certain threshold indicating a possibility that a taxpayer is eligible for

Barriers	Information
	CalEITC. This would allow for targeted outreach by trusted partners.
Statutory authority	None exists for data sharing privileges between FTB and other peer agencies for this purpose.

Table 15. Administration: Outreach to Filers who did not claim credit but appear eligible (1.0 million universe)

Barriers	Information
Complexity of Concept (Minor, Fair, Significant)	Fair
Time to implement Concept	2 years for all filers Pilot program year 1
FTB resources needed to implement	Costs are dependent on the size of the universe and program parameters but would likely approach \$5 million a year (including postage) with onetime IT costs of up to \$10 million.
Statewide resources needed to implement	Resources for peer agencies could be necessary to allow for data sharing efforts with FTB. Resources for local agencies may also be needed if data they retain is used to support this concept. Costs would likely be substantial.
Data Availability (timing, accuracy, comprehensiveness)	Data accuracy and comprehensiveness were not enhanced as a result of this review primarily due to key differences between the definition of a 'household unit' and 'tax unit.'
Statutory authority	None exists for data sharing privileges between FTB and other peer agencies for this purpose.

Concept E - Tax Identification Number

Interested parties have noted that the IRS process to issue an ITIN can be burdensome or take too long and thus taxpayers are unable to claim CalEITC timely or at all. These organizations have suggested that California issue a unique California identifier for those taxpayers who do not have an ITIN as they have not yet applied for one with the IRS, the application is pending with the IRS, or the IRS has denied the application. ITINs are available to individuals who are not eligible for a social security number and must file a federal tax return.

The ITIN is an acceptable identifier for filing a California tax return as well. If FTB were to issue a unique identifying number for tax purposes, this would allow Californians eligible for CalEITC or other state-based tax credits to file a tax return with California to receive CalEITC and other state-based credits for which they qualify.

Taxpayers can apply with the IRS for an ITIN year-round, but generally do so during tax filing season. To apply for an ITIN, the taxpayer must complete Form W-7 (Application for IRS Individual Taxpayer Identification Number) and generally submit it simultaneously with a valid federal income tax return, in addition to supporting identity verification documents. The taxpayer can engage in the application process with the IRS by themselves or utilize an Acceptance Agent to assist. Most Acceptance Agents will charge a fee for services rendered. The IRS notes, per their website, that the general processing time for an ITIN application is five to seven weeks, but during the peak filing period, this processing time can and does extend to around ten to fourteen weeks. The IRS requires the review and/or submission of key identifying documents (original copies) such as birth and marriage certificates, foreign passports, or other identifications that have a picture such as a driver's license.

In the 2020 legislative session, AB 2247 was passed, allowing FTB to accept documentation establishing the identity of dependents ineligible for an ITIN, as they resided in Mexico or Canada, while their parents/caregivers resided in the United States. To establish identity, FTB accepts similar documents to those used by the IRS, which are submitted annually as attachments to FTB Form 3568 (Alternative Identifying Information for the Dependent Exemption Credit) and can be subject to additional verification. FTB does not assign identifier numbers to these dependents. This process is used solely to allow the parent/caregiver (who has a valid filing identifier) the right to claim the California dependent exemption on their California tax return.

To date, FTB receives returns from approximately 600,000 ITIN individuals/families a year. Interested parties have indicated California likely has over 2 million ITIN eligible taxpayers. FTB is unaware of statistics that could assist in understanding how this number might equate to those choosing to request a unique identifier issued by FTB.

Concept E-1: Create a provisional California unique identifier

Interested parties have suggested California could issue a unique identification number for California tax filing purposes to ease constraints and concerns with obtaining an ITIN.

Benefits:

- Taxpayers have another source to obtain an identification number that can be used to file a California tax return and thus avail themselves of state-based tax credits.

Risks/Challenges:

- The unique identifier is applicable only for California purposes. The IRS would not accept it as a valid identifier to file a federal tax return and ensure all federal tax credits the taxpayer is eligible for are received.
- To prepare the California return and claim CalEITC, the taxpayer must first calculate the federal AGI, which substantially requires a taxpayer to prepare a federal tax return. Creating a unique California identifier will not eliminate this necessary step.
- FTB would not have any key filing or income information associated with the unique number, which is an essential element to timely and accurately process returns and conduct fraud analysis for tax agencies nationwide. FTB could be hindered in performing basic return processing and fraud detection efforts as the California identifier would be unique to this purpose. This could result in increased fraud associated with the program and identity theft of the taxpayer.
- To ensure timely identification, and consistency with programs statewide requiring identity verification, personal interaction would be required to allow for the issuance of a unique identifier. FTB has limited field offices throughout the state that could be used to conduct such a program. FTB would have to establish and manage a program similar to the federal process authorizing acceptance agents to assist taxpayers with the process. A fee structure for such a program would also be necessary to compensate individuals for their services.

- The duration of time it takes to verify identity would be dependent on the volume of requests, quality, applicability, and thoroughness of information presented, and FTB’s ability to review and validate the information. While FTB would only be managing the program for California applicants, it is unclear if our process would be any faster than the existing federal program which indicates the issuance of a number can occur in five to fourteen weeks depending on the time of year.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Some taxpayers do not have an ITIN and/or are unable to timely file for one.

Barriers Not Impacted or Outside of the Scope of this Concept

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Materials are not available in multiple languages.
- Some taxpayers are not aware of filing requirements or available tax credits.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Tax return preparation is costly and some taxpayers don’t want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Some taxpayers do not have all documents or records (driver’s license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not have internet access.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.

- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 16. Administration:

Barriers	Information
Complexity of Concept (Minor, Fair, Significant)	Significant
Time to implement Concept	2 plus years
FTB resources needed to implement	Yes. An understanding of potential volume and final statute language will need to be reviewed but costs are likely to exceed \$3 million ongoing and could exceed \$10 million for one time program implementation costs.
Statewide resources needed to implement	Possible depending on FTB partners assisting with face to face interaction to receive and review verifying taxpayer information.
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	No statutory authority exists to authorize the unique identifier, or allow CalEITC and other state-based credits based on this unique identifier.

Concept E-2: Use state agency workforce to provide free assistance in completing and filing forms for individuals needing an ITIN

Interested parties have suggested that DMV staff, or perhaps staff at other state agencies with contacts with California citizens, could:

- Assist eligible taxpayers in preparing the federal Form W-7 for the taxpayer to submit to the IRS, or
- Obtain status as an acceptance agent, which would allow these state staff members to verify the taxpayers' documents proving identity and then submit the Form W-7 and identification documents to the IRS on the taxpayers' behalf.

IRS procedures allow IRS-approved individuals and agencies to become Acceptance Agents, including state and local government agencies. An applicant can choose to become a regular Acceptance Agent (AA) or a Certified Acceptance Agent (CAA). Either option requires mandatory acceptance agent training and an application process that can take four or five months. The primary differences between the two are that a CAA must take additional forensic training, can submit certified copies of original identification documents to the IRS, and can receive the ITIN directly from the IRS to provide to the taxpayer.

In general, Acceptance Agent certification remains in effect for four calendar years and the agent must submit at least five W-7 applications per year to avoid suspension. Both the aspiring AA/CAA and their place of employment are required to submit to a 'suitability check' before being authorized to act as an Acceptance Agent. A suitability check can include the following: 1) an IRS review of the business' tax filing history to determine if it is in full compliance with filing and payment responsibilities; 2) a credit history check; and 3) an FBI background check. IRS procedures also require the taxpayer and the Acceptance Agent meet in person to review the documentation. For a first-time ITIN applicant, the ITIN W-7 application must be simultaneously submitted with a current federal return (paper) unless an exception applies. Although there are several exceptions to the federal return reporting requirement, these generally focus on the existence of certain income producing activities that will trigger an information return reporting requirement to the IRS, which do not include wages. For example, a taxpayer does not have to simultaneously file a federal tax return if they are applying for an ITIN to allow a third party to issue an information return in the current tax year. An example of this would be an individual acquiring a mortgage or who sold real estate could submit a copy of escrow papers for documentation purposes to receive an ITIN that would be used by the escrow agent/loan company for tax obligations. While these exceptions could exist, they will not apply extensively necessitating the simultaneous filing of a federal tax return with the W-7 ITIN application.

Finally, all applicants entering the U.S. with a green card or visa that permits them to obtain employment in the U.S. must first apply for an SSN. If the SSA denies the request for an SSN, the denial letter must be obtained by the Acceptance Agent from the individual and attached to the Form W-7. In cases where a student issued a visa is here only for study, a letter from the Designated School Official stating that the taxpayer will not be securing employment or

receiving income from personal services while in the U.S., will suffice for meeting these criteria. A taxpayer must visit the SSA office in person with their passport, and the SSA will review eligibility for a social security number and issue a letter stating that the applicant is not eligible for an SSN as appropriate.

Comparable to the IRS process for issuing an ITIN, DMV also uses a similar in person identity verification process including the submission of the same or similar documents to allow for the issuance of a California driver's license for Californians applying for a driver's license, but are not able to provide proof of their legal presence in the United States (AB 60, 2015).

FTB engaged in discussions with state agencies, including DMV and other state agencies responsible for administering public assistance programs, regarding this proposal.

- For DMV, additional discussions would be needed to understand how providing assistance in applying for an ITIN/preparing a tax return would impact their current operations, classification specifications, and what additional resources would be needed to facilitate this process.
- For other state agencies responsible for administering public assistance programs, public-facing staff reside under the control of county government or local programs and further discussions would be needed to determine how this could impact their operations, whether key information necessary for an ITIN is already part of their program documentation standards, and what additional resources would be needed to facilitate this process.

Benefits:

- Taxpayers can understand their tax obligations and file a return to receive tax credits for which they qualify.
- Tax return preparation is free to public assistance program participants.
- Taxpayers would receive free assistance in applying to the IRS to receive an ITIN.

Risks/Challenges:

- In general, requesting an ITIN and filing a tax return is perceived as a complex task. Extensive annual training would be needed for staff that assist in return preparation as well as certification through an IRS exam to ensure that they are knowledgeable enough about tax laws to prepare accurate returns. To assist a taxpayer in obtaining an ITIN, staff would be required to complete additional one time training every five years of 20+

hours and undergo an extensive background check before being authorized as an AA.

- A legal opinion should be obtained to address any issues with the state paying staff to 'prepare and file a tax return.' Generally, 'paid preparers' are required to have certain levels of training, licensing, and acknowledge their required due diligence during return preparation and have significant responsibility, including financial, for any errors or omissions that could occur during return preparation.
- Employee classifications should be reviewed to ensure responsibilities are commiserate with job duties and expected knowledge and skills.
- The IRS should also be consulted to ensure returns prepared by these staff members will be accepted by the IRS. The IRS has strict requirements for all entities that are authorized to file returns on behalf of taxpayers. These same restrictions are also applicable for FTB processing activities as FTB follows the IRS.

Table 17. Administration:

Barrier:	Information
Complexity of Concept (Minor, Fair, Significant)	Significant
Time to implement Concept	2 plus years
FTB resources needed to implement	Yes. An understanding of potential universe and final statute language will need to be reviewed but costs could approach \$1 million ongoing to support peer agencies with their processes.
Statewide resources needed to implement	Yes. Additional discussions with peer organizations are required to understand resource needs and statutory limitations on work conducted by staff for DMV or county offices to support this program. Resources needed are likely to be significant.
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	None exists or none needed.

Alternative #1:

Current statutory language requires a taxpayer to file a California tax return with a valid identifying number issued by October 15th of the year following the close of the tax year to claim CalEITC. Similar to language adopted with the Golden State Stimulus II Program (GSS), language could be amended in CalEITC statute to allow that for those taxpayers eligible for an ITIN, but not yet having obtained one, they must apply for an ITIN by October 15th versus having been *issued* an ITIN by October 15th. Additionally, statute modifications could offer penalty relief similar to that provided for ITIN filers under the Golden State Stimulus program, in the event penalties would apply for late filing or late payment. In most cases, penalties would likely not apply.

Table 18. Administration:

Barrier:	Information
Complexity of Concept (Minor, Fair, Significant)	Fair
Time to implement Concept	1 + years
FTB resources needed to implement	Yes. The GSS workload was a one-time event and FTB is managing accounts manually. In contrast, this alternative would not be a one-time event and would require automation of the solution to avoid delays in return processing. Implementation costs could exceed \$2 million and ongoing costs could exceed \$500,000 annually.
Statewide resources needed to implement	N/A
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	Current statute does not allow for the application date to control rather than the issue date of the ITIN or allow for penalty relief if these returns are filed late.

Concept F - Create tax forms in multiple languages

Description:

Interested parties continue to indicate a strong need for key information supporting tax return filing and tax incentives to be available in multiple languages. Research from various sources indicates that allowing a reader to consume the information in their primary language enhances understanding allowing the reader to be better informed and able to react.

FTB has the following business tools in multiple languages:

- Tax Forms - FTB has published various forms in Spanish since 2010. These include commonly used forms such as the 540 2EZ form and booklet as well as the form to allow an individual taxpayer to pay their projected tax liability when they are otherwise requesting an extension to file. By 2015, FTB produced the CalEITC form, forms related to claiming Head of Houseful Filing Status, and forms related to claiming a Disaster Loss in Spanish.
 - While FTB continues to support these Spanish forms, we note they are not widely used to file returns. However, FTB is aware from tax professionals that they utilize these forms to assist their clients in ensuring a full understanding of the requirements to file a tax return. For the 2021 calendar year, the Spanish version of the 540 2 EZ form and booklet was downloaded almost 500 times; the English version was downloaded almost 190,000 times. For the same year, the Spanish version of the CalEITC form was downloaded almost 1,900 times; the English version was downloaded almost 26,000 times.
 - On an annual basis, 90%+ of tax returns are e-filed using tax software or a preparer. This would negate the need to download most paper forms which could account for the low numbers above.
 - The return preparation software firms (nationally based) do not in general deploy filing tools in alternative languages. In 2019, two large software firms did begin offering various blogs and educational materials and support functions in Spanish and continue to do so today. Most of these tools are geared towards tax professionals and not taxpayers.
- FTB's website - The vast majority of our website is presented in English and annually over 25 million visits occur. For the 2021 calendar year, which includes the implementation of GSS, over 43 million visits to FTB's website

have occurred. Portions of the CalEITC webpage were created for viewing in multiple languages including Spanish, Chinese, Hmong, Korean, Russian, Tagalog, and Vietnamese. Effective September 24, 2021, FTB deployed Google Translate to our website allowing taxpayers to convert any HTML webpage they choose to display in a language of their choice with 109 language options to choose from.

- FTB has recognized the industry wide issue where Google Translate has displayed issues with accurately translating technical information in certain places.
 - Google Translate does not translate information contained in PDF documents. At this time, FTB will continue to retain these PDF documents (such as tax forms) in Spanish.
 - FTB's webpage metric tool is not currently set up to track statistics on visits to webpages based on language. Additional research would be needed to understand if this is even possible to do.
- FTB Applications – FTB applications such as MyFTB and CalFile are available only in English. Check Your Refund Status is available in English and Spanish.
 - In early 2008 and 2009, FTB offered a Spanish version of CalFile. In both years, less than 250 taxpayers utilized this tool. In general, approximately 125,000 taxpayers utilize CalFile annually.

Alternatives:

See information presented in Concepts G and H, wherein if grant funding continues, advocate and community based organizations can continue to provide educational materials, information, and VITA volunteers supporting languages that are associated with their particular geographic areas.

Benefits:

- Taxpayers would be able to read and understand information on tax filing responsibilities and tax credits for which they qualify.
 - FTB's adoption of Google Translate has substantially assisted in allowing for this benefit to occur.

Risks/Challenges:

- In general, software companies do not provide filing tools in multiple languages. To date, they have not adopted any of the tax return forms FTB has published in Spanish. A key reason for this could be that while the

taxpayer is provided a copy of the return, only data is generally transmitted to tax agencies and this data must be transmitted in English.

- Implementing tax forms in multiple languages that are not also adopted by the tax return software firms, could inadvertently encourage taxpayers to file a paper return which FTB has historically found results in more errors on the return, increases processing costs, and delays processing resulting in later issuance of tax refunds.
- FTB's return processing/scanning function requires tax forms to be formatted utilizing an exact positioning methodology. Translating forms to another language can easily destroy this requirement resulting in substantially increased workloads for FTB, delays in issuing tax refunds to all taxpayers, and a negative impact on our compliance programs. When translating forms, great care is needed to ensure this risk is not triggered.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Materials are not available in multiple languages.

Partially Addressed:

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Some taxpayers are not aware of filing requirements or available tax credits.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).

Barriers Not Impacted or Outside of the Scope of this Concept

- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Some taxpayers do not have all documents or records (driver's license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.

- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not have internet access.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 19. Administration - For adoption of forms in multiple languages:

Barrier:	Information
Complexity of Concept (Minor, Fair, Significant)	Fair
Time to implement Concept	1 - 2 years/phased in schedule
FTB resources needed to implement	Yes, resources to address would likely approach or exceed \$1 million annually depending on the volume of forms translated and costs for interpreter support. This presumes no impacts to FTB's return processing environment occur.
Statewide resources needed to implement	None
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	None needed.

Table 20. Administration - For changes to our tax forms, return processing function and systems/applications to support multiple languages:

Barrier:	Information
Complexity of Concept (Minor, Fair, Significant)	Significant
Time to implement Concept	2 - 3+ years/phased in schedule

Barrier:	Information
FTB resources needed to implement	Yes, resources to address would likely approach or exceed \$5 million annually depending on the volume of forms translated and costs for interpreter support. Upfront costs for system/apps modifications exceeding \$10 million in one-time costs are also likely.
Statewide resources needed to implement	None
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	None needed.

Concept G - Increase grant funding for community based organizations to engage in outreach and free tax preparation services

Description:

As noted in the table on page 8 of this report, grant funding for community based organizations and advocacy groups has occurred annually in varying amounts since 2016. For the current budget year (fiscal year 2021-22), \$15 million in funding is provided to promote outreach efforts and free tax preparation, and to identify opportunities to expand free efforts to assist taxpayers obtain an ITIN from the IRS.

In our work on this report with community based organizations and advocacy groups, the ideal amount for grant funding was not noted or discussed. FTB is aware in prior legislative sessions, \$20 million a year was suggested for consideration.

For the remainder of this discussion segment, FTB presumes discussions as to the amount of preferred funding is outside the scope of this report.

Benefits:

- Ensures taxpayers are aware of credits available and can file a return to claim.
- Allows for additional recruiting and retaining volunteers to support outreach and return preparation and providing assistance to ITIN taxpayers.
- Allows for expansion of hours of service at existing locations or allows for expansion to new locations.
- Enhances efforts to reach out to nonfilers to ensure they can file to claim eligible credits.

Risks/Challenges:

- Volunteers have always been challenging to recruit and may not be available to support expanded efforts.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Some taxpayers are not aware of filing requirements or available tax credits.
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers do not have internet access.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals, filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).

Barriers Not Impacted or Outside of the Scope of this Concept

- Materials are not available in multiple languages.
- Some taxpayers do not have all documents or records (driver's license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 21. Administration:

Barriers	Information
Complexity of Concept (Minor, Fair, Significant)	Minor
Time to implement Concept	Quickly
FTB resources needed to implement	Depending on grants allocated for free tax preparation, additional resource may be needed to support VITA services.
Statewide resources needed to implement	None identified.
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	Ongoing budget authority is needed.

Concept H - Provide ongoing funding for grant funding so outreach and return filing assistance efforts can be conducted year round

Description:

Community based organizations and advocate associations have indicated a strong desire to have dedicated funding year round to support education and outreach and free tax return preparation. Within the current funding structure, funding is usually known to be available in June when the budget passes and available for expenditure during the next fiscal year as late as November 1st and through June 30th, which leaves a lengthy period where these key functions are not funded. Inconsistent funding also requires the organizations to be in a constant ramp up and ramp down mode of operation impacting services, retention of volunteers, hours of operations, and the ability to provide critical assistance when the taxpayer needs it.

FTB and the Department of Community Services and Development (CSD) has adopted a four year contracting process supporting the existing grants to ease some of these issues in the subsequent years but challenges still remain to these organizations as currently, the availability of funding, or how much funding, is not known until the end of June making it difficult to plan for efforts in the summer and early fall months.

Key statistics are noted in Table 3 of the report regarding return filing behaviors as to when taxpayers generally file returns to claim CalEITC.

Benefits:

- Allows for year round functions enhancing retention of volunteers to support outreach and return preparation.
- Efforts to reach out to nonfilers and those that file by the October due date are key during the periods of May – October.

Risks/Challenges:

- Volunteers have always been challenging to recruit and may not be available to support expanded efforts.

Barriers Raised by Interested Parties Addressed by this Concept:

Barriers Addressed

- Filing a tax return is a complex task and not always understood. Some taxpayers can be concerned with making an error and getting into trouble.
- Some taxpayers are not aware of filing requirements or available tax credits.
- Tax return preparation is costly and some taxpayers don't want to incur this cost burden for a credit amount that can be less than the return preparation or preparer fee.
- Free tax return preparation sites are not readily accessible to many taxpayers in the neighborhoods they live in.
- Some taxpayers do not have an ITIN and/or are unable to timely file for one.
- Some taxpayers do not have internet access.
- Some taxpayers eligible for the EITC credits do not have high enough income to trigger a tax return filing requirement. For these individuals filing a return to claim the EITC credits can be an unnecessary and costly burden or the taxpayer does not think they qualify because they do not have a filing requirement.
- Some taxpayers distrust or dislike government, and/or are afraid to interact with government agencies (not a trusted partner).

Barriers Not Impacted or Outside of the Scope of this Concept

- Materials are not available in multiple languages.
- Some taxpayers do not have all documents or records (driver's license) needed to file a return.
- Some taxpayers do not have a bank account or stable address to receive a refund.
- Some taxpayers are concerned with applying for these credits as they fear this could be used against them as noncitizen residents.
- Some taxpayers do not file as they owe taxes or another debt that offsets any refund.

Table 22. Administration:

Barrier:	Information
Complexity of Concept (Minor, Fair, Significant)	Minor
Time to implement Concept	Quickly
FTB resources needed to implement	Depending on grants allocated for free tax preparation, additional resource may be needed to support VITA services.
Statewide resources needed to implement	None identified.
Data Availability (timing, accuracy, comprehensiveness)	N/A
Statutory authority	Ongoing budget authority is needed.

Exhibit 1 – Description of EITC Programs

For the 2020 tax year, the federal EITC qualifying income maximums for those with three qualifying children were \$50,594 for Single, Head of Household, or widowed returns, or \$56,844 for Married Filing Joint returns. The maximum credits were \$538 with no qualifying children, \$3,584 with one qualifying child, \$5,920 with two qualifying children, or \$6,660 with three or more qualifying children.

CalEITC, adopted for tax year 2015, differs from the federal program by imposing lower income limits, not including filing status as a determinant of the credit amount, and initially, not allowing self-employed income to count toward earned income requirements. The following changes have been made to the credit since its inception in California law:

- Beginning in tax year 2017, self-employment income was included as qualifying towards earned income requirements.
- Beginning in tax year 2018, the credit was expanded to childless adults under 25 and over 64.
- Beginning in tax year 2019, extended the income limits to \$30,000 for all taxpayers, and created the YCTC. The YCTC is an additional \$1,000 credit for taxpayers who qualify for CalEITC and have a child under 6 years old.
- Beginning in tax year 2020, the credit was expanded to taxpayers with ITINs.

CalEITC benefit levels are much lower than the federal program. For the 2019 taxable year, the maximum CalEITC ranged from \$243 for an eligible individual without a qualifying child to \$3,027 for an eligible individual with three qualifying children. Generally a qualified taxpayer/return has an AGI of up to \$30,000. The maximum YCTC was \$1,000 for taxpayers with a qualifying child and begins to be phased out for taxpayers with income over \$25,000. The credit is completely phased out at \$30,000.

Exhibit 2 – Study Partners

On August 25, 2021, FTB hosted a stakeholders meeting to address the following topics of consideration:

Summary of Stakeholder Ideas

1. Simplified Filing Portal
 - a. Develop a one-stop, easily accessible portal for all California residents (SSN, ITIN, non-SSN/ITIN) to: 1) apply for stimulus payments via a simplified form, 2) generate a unique provisional California tax ID for individuals without an SSN, 3) disburse funds for eligible individuals.
 - b. The portal would trigger the FTB to auto-fill eligible applicant tax return forms via data on file or from data-sharing agreements with other agencies.
 - c. Available to individuals and approved community-based organizations (CBOs) with trusted community relationships to provide navigation support for applicants.
 - d. Mobile-friendly and available in multiple languages.
2. Increase VITA and Grant Funding, and Expand Availability
 - a. Use trusted CBOs to encourage individuals to claim credits and to provide VITA services, as VITA sites ensure that hard-to-reach communities have access to free tax preparation.
 - b. Need materials designed for first-time filers, specific to foster youth, college students, or homeless youth. Mobile VITA sites are also a promising model.
 - c. VITA services should be ongoing and available year-round. Currently, CBOs do not have the capacity to maintain service levels in the months they aren't funded. Funding should match the IRS model of year-round funding over 2-year increments.
 - d. Year-round tax prep sites could also offer virtual tax appointments.
3. Expand Automatic Payments for Filing Non-Claimants
 - a. Automatically calculate and send an amended return and payment of any credit to taxpayers who filed tax returns, but

- did not claim credits.
- b. Build on prior efforts to send amended returns for non-claimants. Analyze filed returns to determine if the filer is eligible for CalEITC, and send amended returns with portions of the worksheet prefilled for non-claimants. This is an approach that the IRS practices for the federal credit.
 - c. Look to the child tax credit as an example. Households can make adjustments to their income and family information on an easy-to-use portal, and payments are sent automatically to those eligible.
 - d. Send automatic payments to those who lose income, so that they can receive the EITC without burden of proof.
4. Work with Other Agencies and CBOs to Identify Eligibility
- a. Work with social service programs to help identify eligibility and connect to resources. Develop a step in the benefits reauthorization process that checks for tax filing, and then either provides a warm hand-off to VITA, or specifically trains tax assistors within the social services agency.
 - b. Partner with other organizations to collect administrative data from state agencies and household data from community organizations. A baseline data set can be created across these sources to serve as a central source of information. Based on the data, the appropriate outreach solutions will follow.
5. Remove Barriers to Identity Verification
- a. Expand EITC to all eligible individuals, regardless of whether they have an SSN or ITIN.
 - b. Enable taxpayers to verify identification in simpler ways.
 - c. Help undocumented taxpayers join the tax system by: 1) providing additional assistance to obtain ITINs, 2) increase access to Certified Acceptance Agents (i.e. train state workers as agents at places like DMV where ID verification already occurs, 3) consider other forms of ID beyond ITINs, including provisional IDs based on filed ITIN paperwork or driver's licenses.

6. Provide Culturally and Linguistically Appropriate Assistance to File
 - a. Provide accessible assistance for those who speak other languages, who have disabilities, etc. This could occur via a simplified form, portal, or outreach.
 - b. Fund VITA sites where there is a large percentage of immigrants in the community, paired with support for trusted CBOs.

7. Pre-populate State Returns or Eliminate Returns for Simple Cases
 - a. Pre-populate simple tax forms designed specifically for those households who typically miss out on social assistance. The households would only need to make corrections if necessary.
 - b. Eliminate returns for households with simple situations.

8. Tax Forgiveness Program for CalEITC Qualifying Filers
 - a. This solution addresses a nonfiler barrier regarding fear of owing past taxes and/or potential fees. This would be an amnesty program for individuals to enter and rejoin the tax system.

9. Ensure Integrity in the Tax System
 - a. Oversee and regulate tax preparers, with guaranteed funding for rule enforcement.
 - b. Coordinate and fund the appropriate agencies to investigate and audit returns of eligible households who filed and never received their credits or payments.
 - c. Partner with and provide funding for trusted community organizations that can serve as navigators and help identify reliable and competent tax preparers, including VITA volunteers.

10. Enhance Incentive to File
 - a. Protect CalEITC from excessive collections.
 - b. Help people claim credits from past years.

The following stakeholders participated in this event:

Asian Americans Advancing Justice – Los Angeles

Bet Tzedek Legal Services

Blue Shield of California Foundation

California Association of Food Banks

California Budget and Policy Center

California Business, Consumer Services, and Housing Agency

California Community Action Partnership Association

California Department of Community Services and Development

California Department of Finance

California Department of Social Services

California Immigrant Policy Center

California Policy Lab

California State Assembly

California State Senate

California State Treasurer's Office

California Statewide Automated Welfare System

Children's Defense Fund

City of Oakland

Code for America

Community Action Commission of San Bernardino County

Community Action Partnership of Kern

County Welfare Directors Association of California

Economic Security Project

Freedman Consulting, LLC

Golden State Opportunity Foundation

John Burton Advocates for Youth
Justice in Aging
Koreatown Youth and Community Center
Latino Community Foundation
Legislative Analyst's Office
Lutheran Office of Public Policy – California
Nielsen Merksamer Parrinello Gross & Leoni LLP
Office of Governor Gavin Newsom
SaverLife
Tipping Point Community
United Way Bay Area
United Way California Capital Region
United Way of Fresno and Madera County
United Way of Greater Los Angeles
United Way of Orange County
United Way of San Diego County
United Ways of California
WorkSafe

On September 1, 2021, FTB met with Code for America to understand their efforts in working with the federal government and other states or California state agencies to assist low income families who could be failing to receive the multiple stimulus incentives due to the failure to file a tax return.

On September 22nd, 2021, FTB met with other California state agencies to discuss the following ideas proposed by our stakeholders:

Ideas for Discussion

1. Share administrative data to identify non-filing individuals eligible to claim CalEITC and YCTC.
2. Conduct outreach or filing assistance to non-filing clients who appear eligible for the state or federal EITC.
3. Provide assistance to help undocumented taxpayers obtain Individual Taxpayer Identification Numbers (ITINs).
4. Check for tax filing during the social benefits reauthorization process, and provide a “warm hand-off” to partners who can assist the client in filing a tax return.

The following stakeholders participated in this event:

California Business, Consumer Services, and Housing Agency

California Department of Child Support Services

California Department of Community Services and Development

California Department of Developmental Services

California Department of Health Care Services

California Department of Motor Vehicles

California Department of Public Health

California Department of Social Services

Covered California

Employment Development Department

Summary of conversations with agencies on data they control at the state level:

Table 23. Summary Table – Data Available by State Agency

Personal Information	Business, Consumer Services and Housing (BCSH)	Child Support Services (DCSS)	Community Services & Development (CSD)	Developmental Services (DDS)	Health Care Services (DHCS)	Motor Vehicles (DMV)	Public Health (CDPH)**	Social Services (CDSS)	Employment Development (EDD)	Covered California
Name	Yes	Yes	Yes	Yes	Yes	Yes		Yes	Yes	Yes
Address	Yes	Yes	Yes	Yes	Yes	Yes			Yes	Yes
SSN		Yes		Yes	Yes	Yes		Yes	Yes	Yes
Family Relationship*										
Spouse		Yes			Yes	N/A			N/A	Yes
Child		Yes			Yes	N/A			N/A	Yes
Other dependent		Yes			Yes	N/A			N/A	Yes
Income Information										
Wages		Yes		Yes		N/A		Yes	Yes	Yes
Self-Employment Income						N/A				Yes
Other Income						N/A				Yes
Other Data Information										
Data universe (number of people for whom agency has information)					7+ million			5+ million		1.6 million
Where is data kept? State or local level?	Local	State/Local	Local: Counties and Non-Profits	State/Local	State	State	Local	State	State	State
Federal laws that restrict data sharing?	No	Yes		Yes, HIPAA	Yes, HIPAA	No		No	Yes, for unemployment	Yes, for income (FTI)

*Information on family relations held by DHCS is insufficient to determine filing status, and whether definition of a qualified dependent for tax purposes is met. Dependents under public assistance program differs from tax law definition.

**Data information was not received by CDPH, but they did provide their new resource entitled "Connecting Families to Tax Credit to Improve Child Wellbeing in California: A Brief for California Local Health Departments and Children & Family Service Providers"

On October 18, 2021, FTB met with the IRS to discuss historical efforts on EITC outreach and current experiences with the EIP and CTC portals.

FTB wishes to share our appreciation and thanks to all participating individuals as we sought to understand these concepts and reducing the various barriers noted as existing.

Exhibit 3 - Data Description and Methodology

FTB met with multiple state agencies (identified in Exhibit 2) that could potentially have data that we could use and aggregate with FTB data to better identify CalEITC recipients and credibly estimate credit amounts.

Opportunities and barriers were identified that can be discussed further to best position the state in creating cohesive partnerships to ensure every Californian that is eligible for CalEITC or other tax federal or state tax incentives has the opportunity to be aware of the credits and understands how to file tax returns to claim the credits.

Data sharing between state agencies would require appropriate statutory authority and further reviews with each agency may be warranted to ensure no federal rules would be violated with these new data sharing agreements.

Resources may also be needed in the various agencies to ensure staff levels are sufficient to allow for timely sharing of quality data.

FTB would like to thank CDSS for sharing their program data for purposes of facilitating this study and understanding opportunities that exist. FTB also worked with DHCS to understand the various data rules utilized and data fields they collect, retain, and validate. No data was shared, but insight into the data elements they have was instrumental in gaining key insights into opportunities. Absent data specific discussions noted in the remainder of the Exhibit, which focuses on observations of CDSS program data, many of the same data elements and gaps existed between CDSS and DHCS program data.

The remainder of this Exhibit addresses FTB's full analysis of CDSS program data.

Data Provided by CDSS

CDSS provided FTB with CalFresh and CalWorks data for 2018 and 2019. Each dataset contains personally identifying information such as SSN, name and date of birth, as well as demographics information. To support ongoing program participation, each recipient is required to update their information on a monthly basis for CalFresh benefits and quarterly for CalWorks benefits. The data includes the individual's county of residence, the case serial number, an eligibility flag, Medicare family budget unit indicator and program code. Individuals who reside in the same household can be linked together using the case serial number but the relationship of the household members is not a required element for program participation and thus is not captured. The CalFresh datasets have over 5 million individuals and the CalWorks dataset

contains more than 1 million individuals. Over 95% of the individuals who appear in the CalWorks data also appear in the CalFresh data.

Table 24. Number of individuals in each dataset.

Program	2018	2019
CalFresh	5,447,710	5,660,675
CalWorks	1,399,578	1,268,862

CDSS indicated that the Medi-Cal Eligibility Data System (MEDS) data report from DHCS available each month typically occurs during the last week of the month. This monthly report contains data for the current month and the prior 11 months. To avoid the incompleteness of data for the current month, CDSS processes the data on a quarterly basis and update data for the prior 11 months. This means that CDSS would receive data for the month of December at the very end of the month. CDSS would then process the data at the beginning of January. A full year dataset would be available in January. CDSS also indicated that there are occasional data entry lags, so case counts may increase 1-2% when processing the first and second quarters of the following year. However, since this increase is minor, FTB would be able to utilize the dataset that becomes available in January.

Tax unit vs CDSS household

The data provided by CDSS has detailed information on households but lacks information important for tax administration. For example, the definitions of a household for CalFresh and a tax unit for filing purposes differ significantly. A CalFresh household is a group of people who prepare food together, while a tax unit is an individual, married couple or registered domestic partners, and any dependents they can claim.

According to the Legal Services of Northern California (LSNC) CalFresh Guide, a CalFresh "household," [7 C.F.R. § **273.1(a)**; MPP § **63-402.1**] "can be a person living alone or a group of people living together who buy food and make meals together. Members of a CalFresh household do not need to be related. A person who lives with others, but customarily buys and prepares food *separate and apart* from others, can be a **separate CalFresh household**...even if related to other members of the household, an 'elderly and disabled' person can also be a separate household."

A "tax unit" for filing purposes differs from a CalFresh household, due to the way a dependent is defined under Internal Revenue Code (IRC) section 152.

Dependents are generally a qualifying child or qualifying relative who must bear a relationship to and receive more than 50% of their support from the taxpayer.

Data Limitations

The CDSS data contains information on how many months two individuals lived together during a given year, but does not contain relationship information between household members in a CalFresh or CalWorks household. For CalWorks households, the data is only reported on a quarterly basis, which makes the data less reliable than the CalFresh data for determining how long people lived together. Not having relationship information between CalFresh and CalWorks recipients limits what FTB can do with the data.

One limitation is that FTB cannot **determine a tax unit** for filing purposes without making assumptions. For example, if there are two adults in the CalFresh household, FTB may not be able to determine if the people are married or just roommates. In addition, FTB may not be able to determine which adult can claim a child as a dependent or if the child would be considered a “qualifying child” for CalEITC purposes. Although certain relationship assumptions could be made from the CDSS data for individuals with the same last name, there is risk that FTB would be inaccurate in determining a tax unit. For instance, FTB could assume two adults with the same last name are married, but in reality are two siblings or an adult parent and adult child. Similarly, if the children have the same last name as the adults or a hyphenated last name containing the name of an adult in the family unit, it could be assumed the child and adult are a parent child relationship

Another challenge is that CDSS data doesn't contain any income or expense information that FTB doesn't already receive from a third party source such as EDD. If additional data is available, it is obtained and retained by the local agency responsible for administering the program to local participants which typically rely on face to face interactions. The additional income/expense data obtained by the local agencies is likely not validated and its value is unknown. Further discussion would be warranted if desired to better understand the data retained at the local agency level as to whether it is unique, updated, or similar to what FTB already has and whether it can be shared with legislative authority and the resources needed to facilitate such an exchange.

As a result, FTB will continue to rely heavily on existing data sets we already receive from EDD and the IRS, FTB is much more familiar with these data sources, but they, too, have drawbacks. First, EDD only provides wage data, so FTB

would still be missing self-employment and investment income data required to determine taxpayers' earned income and whether or not they fall below the investment income threshold. FTB receives income information returns, such as 1099's, however, these records may not be complete until after filing season which limits our knowledge of the multiple income sources a taxpayer can have that would be reported on a return. FTB relies on taxpayers accurately reporting their full self-employment and investment income, claiming allowable expenditures/credits and designating the tax unit and relevant/desired filing status. Currently, 23% of CalEITC recipients report some self-employment income. Because CDSS's data doesn't contain self-employment or investment income records and FTB receives it from the IRS at a later date, FTB is missing timely critical income information for a large percentage of taxpayers. Without knowing which taxpayers have self-employment income, FTB is unable to credibly estimate a taxpayer who is eligible for CalEITC or estimate a credit amount.

Data Advantages

Despite the limitations, the CDSS data does provide valuable information to verify the **residency test** for dependents and qualifying children of individuals who file taxes. Occasionally during return processing, a tax return will undergo fraud review for verification of qualifying children. In the case that all the CDSS individuals appear on a tax return, FTB could use this data to verify qualifying children and speed up tax refund issuance and limit unnecessary taxpayer interaction. Another useful piece of information is **date of birth** (DOB) for dependents. FTB does not receive DOB information for dependents on the tax return unless they claim CalEITC. DOB information could be used to help FTB identify taxpayers who appear eligible for the YCTC and encourage them to file a CA Form 3514.

CDSS Data Initial findings

The following data discussion will focus on data where FTB was able to match filer or spouse data to a CDSS program participant. Cases without matches were excluded. Focusing on individuals who file taxes and participate in a CDSS program allowed FTB to analyze how closely tax filing units match up with CDSS program households. A later section will discuss nonfilers. To identify matches, FTB created long datasets out of return filing data for 2018 and 2019. In 2018 and 2019 respectively, there were 38,228,949 and 38,050,602 individuals

represented on tax returns as either primary filers, spouses or dependents. Using this long dataset, FTB was able to identify matches in the CDSS data.

FTB ran four different matching simulations, which are summarized below. The number of matches is highly dependent on the matching criteria and how strict of a match was allowed. Matching on SSN only may identify more potential matches, but it comes at the significant risk of disclosing personal identifying information to the wrong individual.

Based on the specific search criterion, the following individuals are shown on a tax return in some capacity and are in the household unit for CalWorks/CalFresh.

Table 25. Simulation 1: SSN only

Year	Taxpayer	Spouse	Dependent	Total
2018	1,227,836	225,568	2,440,735	3,894,139
2019	1,270,771	212,259	2,393,391	3,876,421

Table 26. Simulation 2: SSN, and Last Name

Year	Taxpayer	Spouse	Dependent	Total
2018	1,065,590	180,731	1,997,582	3,243,903
2019	1,098,450	168,485	1,963,159	3,230,094

Table 27. Simulation 3: SSN, Last Name and DOB

Year	Taxpayer	Spouse	Dependent	Total
2018	964,849	161,258	1,611,622	2,737,729
2019	1,008,169	151,580	1,590,294	2,750,043

Table 28. Simulation 4: SSN, Last Name, First Name and DOB

Year	Taxpayer	Spouse	Dependent	Total
2018	941,033	155,604	1,611,622	2,708,259
2019	985,055	146,441	1,590,294	2,721,790

To avoid any disclosure potential, FTB business rules would require any business effort to utilize the highest potential match – Simulation 4 in this situation. Prior to running any simulations, each dataset was first cleaned by upcasing, removing spaces and special characters, such as hyphens from individuals' names, to increase the odds of finding a successful match. For example if an adult individual's last name was Jingleheimer-Schmidt in FTB data but Jingleheimer Schmidt in CDSS data, this would not be identified as a match. However, by removing spaces and hyphens, the individual now appears as JINGLEHEIMERSCHMIDT in both datasets and would be identified as a match. It should be noted that the matching process for dependents slightly differed, as

FTB does not have DOB information for them unless a CA Form 3514 is filed. Therefore, dependents were only matched on SSN, first name and last name.

The second step in the data analysis was to add a variable to the CDSS data to identify primary taxpayers, spouses, dependents and nonfilers. When a match occurred, FTB's return ID was added to the CDSS program case. The next step was to create households out of the individual level data that CDSS provided. To create households, FTB created a case ID for each individual in the CDSS data. The case ID was equal to the most frequent case serial number in the CDSS data. In the event of two or more serial numbers were the most frequent serial number, the most recent case serial number was chosen to be the case ID. The data was then sorted and reshaped from a long dataset to a wide dataset by the case ID. FTB dropped any cases where the head of the CDSS household was not a primary taxpayer or spouse. After cleaning this dataset, tax return information was merged into the CDSS household by the return ID that was added to the CDSS dataset to compare CDSS households against FTB tax households. There were approximately 945 thousand households used in this comparison.

The next seven items discuss the initial findings from this data and its reliability. The figures presented are the average of the 2018 and 2019 data. In all cases the 2018 and 2019 figures are within a few percentage points.

1. 86% of the CDSS program households filed only one tax return, meaning the people in the CDSS program household are most likely part of the same tax unit. The remaining 14% filed multiple tax returns. This could mean the individuals in these household are single roommates or a working teenager is filing a tax return.
2. Even though 86% of the CDSS program households only filed one tax return, the number of individuals in a CDSS program household only matched the number of individuals in the tax unit reported on the return 62% of the time. This supports that a taxpayer remains a key participant in identifying the family tax unit with a high level of reliability.
3. Determining dependents is an even bigger challenge than determining the number of individuals. For the CDSS programs, the number of individuals is a simple count of people in each household. To determine the number of dependents in the CDSS data, some assumptions need to be made. For this analysis, we assumed if the individual on the CDSS program case was 18 years old or younger, they were a dependent.

CDSS does not have data to determine if individuals between 19 and 24 are full time students and therefore still eligible to be dependents. We also do not include elderly adults as dependents although they may qualify to be a dependent. There is not enough information in the CDSS data to determine if an elderly individual would qualify as a dependent or not. Despite this limitation, FTB's match rate for dependents using only families with a dependent child included, was 57%. This supports that a taxpayer remains a key participant in identifying a qualified dependent with a high level of reliability.

4. Next, EDD wage data is compared to state wages reported on line 12 of the form 540. It's worth noting again that EDD only provides W2 wage information, and does not have self-employment or investment income data needed to determine earned income for CalEITC purposes or for the investment income threshold check. FTB compared CDSS program households where only one tax return was filed for the household and where EDD wages were reported. For the 755 thousand households where EDD data was matched to the household, EDD wages were +/- \$500 72% of the time, from what was reported as the taxpayer's wages on their tax return. When comparing against all households, the percentage of households with state wages within +/- \$500 falls to 68%. Even in the event wages were the only source of income for a taxpayer, this could result in an over or under statement of CalEITC of several hundred dollars, if we were to pro-actively issue the credit based on this data. In cases where the difference was greater than +/- \$500, the over/underpayment would be significantly larger as well. For example, in 2018 a taxpayer with 3 qualifying children and EDD wages of \$10,000 would receive a credit of \$1,958. If their actual earned income was \$10,500, they would have received \$1,767, or \$191 less. The amount of over/underpayment is much less pronounced in the alternate phase-out range of the credit. For example, if the same taxpayer's EDD wages were \$21,000, they would receive \$96. If their actual earned income was \$21,500, they would receive \$84, or \$12 less.
5. If a taxpayer has other sources of income, FTB's ability to accurately estimate the credit amount is further diminished. The CalEITC calculation uses both California earned income and Federal AGI to determine a taxpayer's credit amount. Generally, earned income is the sum of a taxpayer's wage income and self-employment income. Assuming FTB

does not receive 1099 data in a timely manner, FTB may be forced to rely on only W2 income to calculate a taxpayer's Federal AGI. If we compare the EDD W2 data to Federal AGI data, we can only accurately estimate the taxpayer's federal AGI within +/- \$500 50% of the time. This could result in large over or under payments. When comparing the same metric for all households, the percentage of taxpayers that fall within +/- \$500 falls to 47%.

6. Knowing the number of qualifying children per taxpayer is one of the biggest factors in determining the taxpayer's accurate CalEITC amount. To identify potential qualifying children in CDSS data, FTB counted the number of months an individual who was 18 or younger had the same case serial number as another taxpayer or spouse of a taxpayer. If there was only one case serial number for the CDSS household, it was assumed the dependent was a qualifying child regardless of the number of months they appeared in the data as opposed to needing to observe the dependent for at least 6 months in the data to be considered a qualifying child. For example, if both the CDSS program 'head of the household' and dependent only appeared in the data for 3 months, it was assumed they lived together the remaining 9 months of the year. This assumption may overstate the number of qualifying children because they may have different living arrangements in the months FTB cannot observe their living arrangement. FTB analyzed both scenarios and determined this assumption did not make a meaningful difference in the number of qualifying children as over 95% of qualifying children remain qualifying children when only counting the observable months towards eligibility. If there were multiple case serial numbers for the CDSS program household, a dependent was considered a qualifying child if they appeared in the same case as the designated 'head of the household' for at least 6 months of the year. FTB then compared the estimated number of qualifying children to the actual number of qualifying children for taxpayers who claimed CalEITC. Over the two years an average of 460 thousand CDSS households in this analysis claimed CalEITC. FTB was able to accurately estimate the number of qualifying children 60% of the time.
7. After determining a taxpayer's income and number of qualifying children, FTB was able to calculate an estimated CalEITC amount for the CDSS household then compare the amount against what the tax unit actually received. Only 37% of the time, the amount calculated for the CDSS

household matched exactly what was received by the taxpayer. If FTB allows for some margin of over or underpayment, the amount calculated was within +/- \$100 of the actual amount received by the taxpayer 68% of the time. Misses of under +/- \$100 are likely due to inadequate income information. Whereas larger misses are likely due to inaccurate estimates of qualifying children.

These findings indicate there would be significant challenges using the data to attempt to pre-populate tax returns for nonfilers. There would also be significant risk in under or over payments to taxpayers.

Table 29. Filer Statistics (in thousands)

Filer	2018	2019	Average
CDSS Households that where CDSS head is a taxpayer or spouse	930	960	945
CDSS Households individual counts that matched to FTB individuals counts	560	600	580
CDSS Households dependent counts that matched to FTB dependent counts with at least 1 dependent on FTB return	330	320	325
Matched CDSS Households with reported EDD wages	750	760	755
State Wages reported on tax return within +/- \$500 of EDD reported wages for CDSS households that filed 1 tax return	460	520	490
Federal AGI (includes self-employment income) within +/- \$500 of EDD reported wages for CDSS households that filed 1 tax return	310	320	315
CDSS households allowed CalEITC	390	530	460
CDSS Households where 'qualifying children' matched number of qualifying children reported on CA 3514 where at least one qualifying child was reported on a tax return	140	170	155
Number of CDSS households where estimated CalEITC amount claimed on tax return was accurately predicted	130	190	160

Filer	2018	2019	Average
Number of CDSS households where estimate CalEITC amount claimed on tax return was predicted within +/--\$100	240	350	290

NonFilers

FTB also examined the nonfiler population identified by comparing CDSS program data to FTB’s filing data to develop an understanding of what data is and is not available for this population and what sort of realistic assumptions could be made about the group for determining their CalEITC eligibility. Using the strictest matching criteria described above, there are 2.77 and 2.97 million unmatched individuals in the 2018 and 2019 data provided by CDSS. The figures presented below are based on the average of the 2018 and 2019 figures. In all cases the 2018 and 2019 figures are within a few percentage points.

1. 62% are older than age 18 and could potentially be nonfilers vs the remaining 38% under age 18 who are less likely to have a filing requirement.
2. Of the potential nonfilers, 24% had EDD wage records.
3. FTB then created CDSS households from the data. There were an average of 1.96 million households in the nonfiler population.
4. Of the created CDSS households, 360 thousand were dependents only. Since there were no adults included in these households, they were removed from the nonfiler population for the remaining analysis.
5. Out of the remaining 1.6 million households, 25% had EDD wage records.
6. FTB cannot observe filing status in households with more than one adult. This means that FTB cannot know if the wages of two adults would be reported on one tax return or multiple tax returns. Not knowing the filing status makes it impossible to determine the household’s actual earned income amount. Because of this, households with more than one adult were removed from the population. Once removing these households, there were 1.45 million single adult households remaining.
7. Of these single head households, 24% of the households had EDD wage records. 19% meet the income requirements for CalEITC in the respective years. Again note this does not include 1099 income and therefore most likely overstates the actual number of households eligible for CalEITC.

8. 31% would have received less than \$50 in combined CalEITC and YCTC, 58% would have received less than \$100, 79% would have received less than \$200 and only 11% would have received more than \$1,000.

Table 30. NonFiler Statistics (in thousands)

Year	2018	2019	Average
Total nonfilers - individuals	2,770	2,970	2,870
Nonfilers 19 and older	1,630	1,930	1,780
Nonfilers 19 and older with EDD wages	450	390	420
Number of CDSS nonfiler 'households'	1,860	2,010	1,960
Single adult household and any children (eliminated dependent only households and households with multiple adults)	1,340	1,550	1,450
Single adult with EDD Wages	370	325	350
Single adults with EDD wages in EITC income range	290	250	270
Estimated Combined CalEITC and YCTC less than \$50	90	80	85
Estimated Combined CalEITC and YCTC less than \$100	165	150	160
Estimated Combined CalEITC and YCTC less than \$200	230	200	215
Estimated Combined CalEITC and YCTC between \$200 and \$1000	30	25	27
Estimated Combined CalEITC and YCTC less than \$1000	33	27	30

Conclusion

Based on our analysis, overall CDSS data proves to be valuable, in helping identify potential EITC eligible recipients and when combined with FTB data could be used to conduct post filing outreach to individuals who don't file taxes but could be eligible. The analysis also shows that when combining FTB and CDSS data, we are still lacking critical information that would allow us to pro-actively calculate a taxpayer's EITC amount consistently and accurately such as filing status, dependents, and self-employment and investment income.