AB-397 Personal Income Tax Law: young child tax credit. (2025-2026)

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CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

ASSEMBLY BILL NO. 397

Introduced by Assembly Members Mark González, Celeste Rodriguez, and Sharp-Collins
(Principal coauthor: Senator Cervantes)
(Coauthors: Assembly Members Ahrens, *Alvarez,* Bains, Bonta, *Bryan,* Elhawary, *Fong, Jackson, Lee, Nguyen,* Ortega, *Patel,* Ransom, *Michelle Rodriguez,* Rogers, Blanca Rubio, Schiavo, *Schultz,* Solache, Soria, *Stefani,* and Ward)
~~(Coauthor: Senator~~ *(Coauthors: Senators Padilla and* Smallwood-Cuevas)

February 03, 2025

An act to amend Section 17052.1 of the Revenue and Taxation Code, relating to taxation, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

AB 397, as introduced, Mark González. Personal Income Tax Law: young child tax credit.

The Personal Income Tax Law allows various credits against the taxes imposed by that law, including a young child tax credit to a qualified taxpayer in a specified amount multiplied by the earned income tax credit adjustment factor, as provided. That law also allows a payment from the continuously appropriated Tax Relief and Refund Account for an amount in excess of tax liability. Existing law defines “qualified taxpayer” for this purpose to include an eligible individual, as defined, who has a qualifying child, defined to be a child younger than 6 years of age as of the last day of the taxable year, and who meets other specified criteria.

This bill, for taxable years beginning on or after January 1, 2025, would instead define a “qualifying child” to mean a child younger than a specified age as of the last day of the taxable year, as described. By increasing the payments from the Tax Relief and Refund Account, a continuously appropriated fund, the bill would make an appropriation.

Existing law requires any bill authorizing a new tax expenditure to contain, among other things, specific goals that the tax expenditure will achieve, detailed performance indicators, and data collection requirements.

This bill would include additional information required for any bill authorizing a new tax expenditure.

Vote: 2/3 Appropriation: yes Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 17052.1 of the Revenue and Taxation Code is amended to read:

17052.1. (a) (1) For each taxable year beginning on or after January 1, 2019, there shall be allowed against the "net tax," as defined by Section 17039, a young child tax credit to a qualified taxpayer, in an amount as determined under paragraph (2).

(2) (A) (i) The amount of the young child tax credit shall be equal to one thousand one hundred seventy-six dollars ($1,176), multiplied by the earned income tax credit adjustment factor for the taxable year as specified for in Section 17052.

(ii) The amount of the young child tax credit specified under clause (i) shall be recomputed annually in the same manner as the recomputation of income tax brackets under subdivision (h) of Section 17041.

(B) The young child tax credit allowable in any taxable year to any qualified taxpayer shall be limited to the maximum amount specified in clause (i) of subparagraph (A) as recomputed under clause (ii) of subparagraph (A).

(C) (i) The young child tax credit shall be reduced by twenty dollars ($20) for each one hundred dollars ($100), or fraction thereof, by which the qualified taxpayer's earned income, as defined in Section 17052, exceeds the "threshold amount." For purposes of this section, the "threshold amount" shall be twenty-five thousand dollars ($25,000).

(ii) (I) For each taxable year beginning on or after January 1, 2022, and before January 1, 2023, the twenty dollars ($20) in clause (i) shall be recomputed annually in the same manner as the recomputation of income tax brackets under subdivision (h) of Section 17041, except that the resulting products shall be rounded off to the nearest cent.

(II) For taxable years beginning after the taxable year in which the minimum wage, as defined in paragraph (1) of subdivision (b) of Section 1182.12 of the Labor Code, is set at fifteen dollars ($15) per hour, and before January 1, 2024, the amount calculated under subclause (I) shall substitute for the twenty dollars ($20) in clause (i).

(III) The Franchise Tax Board shall calculate a graduated reduction amount in such a manner that, for a qualified taxpayer with earned income of one dollar ($1) or more in excess of the maximum earned income that results in a credit amount greater than zero dollars ($0) pursuant to Section 17052, the amount of the credit under this section is equal to zero. For taxable years beginning on or after January 1, 2024, the graduated reduction amount calculated pursuant to this subclause shall be substituted for the twenty dollars ($20) in clause (i).

(iii) For taxable years beginning after the taxable year in which the minimum wage, as defined in paragraph (1) of subdivision (b) of Section 1182.12 of the Labor Code, is set at fifteen dollars ($15) per hour, the "threshold amount" in this subparagraph shall be recomputed annually in the same manner as the recomputation of income tax brackets under subdivision (h) of Section 17041.

(D) The young child tax credit authorized by this section shall only be operative for taxable years for which resources are authorized in the annual Budget Act for the Franchise Tax Board to oversee and audit returns associated with the credit allowed under Section 17052.

(b) (1) "Qualified taxpayer" means an eligible individual who has at least one qualifying child and who satisfies either of the following:

(A) Has been allowed a tax credit under Section 17052.

(B) Meets all of the following requirements:

(i) Would otherwise have been allowed a tax credit under Section 17052, but has earned income, as defined in Section 32(c)(2) of the Internal Revenue Code, as modified by Section 17052, of zero dollars ($0) or less.

(ii) Does not have net losses in excess of thirty thousand dollars ($30,000) in the taxable year.

(iii) Does not have wages, salaries, tips, and other employee compensation in excess of thirty thousand dollars ($30,000) in the taxable year.

(2) For each taxable year beginning on or after January 1, 2022, the amounts specified under clauses (ii) and (iii) of subparagraph(B) shall be recomputed annually in the same manner as the recomputation of income tax brackets under subdivision (h) of Section 17041.

(c) "Qualifying child" shall have the ~~same~~ *following meaning:*

(1) For taxable years beginning before January 1, 2025, "qualifying child" shall have the same meaning as under Section 17052, except that the child shall be younger than six years of age as of the last day of the taxable year.

(2) For each taxable year beginning on or after January 1, 2025, and before January 1, 2026, "qualifying child," shall have the same meaning as under Section 17052 except that the child shall be younger than 10 years of age as of the last day of the taxable year.

(3) For each taxable year beginning on or after January 1, 2026, and before January 1, 2027, "qualifying child" shall have the same meaning as under Section 17052 except that the child shall be younger than 13 years of age as of the last day of the taxable year.

(4) For each taxable year beginning on or after January 1, 2027, and before January 1, 2028, "qualifying child" shall have the same meaning as under Section 17052 except that the child shall be younger than 16 years of age as of the last day of the taxable year.

(5) For each taxable year beginning on or after January 1, 2028, "qualifying child" shall have the same meaning as under 17052.

(d) (1) The Franchise Tax Board may prescribe rules, guidelines, procedures, or other guidance to carry out the purposes of this section. Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any rule, guideline, or procedure prescribed by the Franchise Tax Board pursuant to this section.

(2) (A) The Franchise Tax Board may prescribe any regulations necessary or appropriate to carry out the purposes of this section, including any regulations to prevent improper claims from being filed or improper payments from being made with respect to net earnings from self-employment.

(B) The adoption of any regulations pursuant to subparagraph (A) may be adopted as emergency regulations in accordance with the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) and shall be deemed an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code, these emergency regulations shall not be subject to the review and approval of the Office of Administrative Law. The regulations shall become effective immediately upon filing with the Secretary of State, and shall remain in effect until revised or repealed by the Franchise Tax Board.

(e) If the amount allowable as a credit under this section exceeds the tax liability computed under this part for the taxable year, the excess shall be credited against other amounts due, if any, and the balance, if any, shall be paid from the Tax Relief and Refund Account and refunded to the qualified taxpayer.

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

(g) (1) In accordance with Section 41, the purpose of the Young Child Tax Credit is to reduce poverty among California's poorest working families and young children. To measure whether the credit achieves its intended purpose, the Franchise Tax Board shall annually prepare a written report on the following:

(A) The number of tax returns claiming the credit.

(B) The number of qualifying children represented on tax returns claiming the credit.

(C) The average credit amount on tax returns claiming the credit.

(2) The Franchise Tax Board shall provide the written report to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate and Assembly Committees on Appropriations, the Senate Committee on Governance and Finance, the Assembly Committee on Revenue and Taxation, and the Senate and Assembly Committees on Human Services.

(3) (A) The Legislature finds and declares that the purpose of the amendments to this section made by the act adding this paragraph is to reduce poverty among California's poorest working families and children.

(B) For those years in which the report described in paragraph (2) includes information relating to taxable years beginning on or after January 1, 2025, the Franchise Tax Board shall separately state the details required by paragraph (1), and an estimate for what those details would be if not for the amendments made to this section by the act adding this paragraph.

(h) The Legislature finds and declares that, to the extent they are otherwise qualified for a credit under this section, undocumented persons are eligible for the tax credit authorized by this section within the meaning of subsection (d) of Section 1621 of Title 8 of the United States Code.

(i) The amendments made to this section by the act adding this subdivision shall apply for taxable years beginning on or after January 1, 2022, except as provided in subparagraph (C) of paragraph (2) of subdivision (a).

REVISIONS:
Heading—Lines 4, 5, and 6.