

Date of Hearing: April 21, 2025

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 1519 (Committee on Revenue and Taxation) – As Introduced March 13, 2025

Majority vote.

SUBJECT: Direct File: employment: notice

SUMMARY: Requires, on and after January 1, 2026, that employers notify their employees about the Direct File program offered by the Internal Revenue Service (IRS) as part of the existing notification requirement relating to tax filing assistance programs, the Earned Income Tax Credit (EITC), and the California Earned Income Tax Credit (CalEITC).

EXISTING FEDERAL LAW requires employers to notify their employees that they may be eligible for the EITC.

EXISTING STATE LAW establishes the Earned Income Tax Credit Information Act, which requires California employers to notify their employees, and certain state departments and agencies to notify their public assistance program recipients, of possible eligibility for Voluntary Income Tax Assistance (VITA) programs, CalFile, and state and federal antipoverty tax credits, including the federal EITC and CalEITC. (Revenue and Taxation Code (R&TC) Section 19853.)

FISCAL EFFECT: The Franchise Tax Board does not estimate any impacts to state revenues.

COMMENTS:

1) Committee Staff Comments:

- a) *Direct File:* In 2024, the IRS rolled out a federal pilot program, "Direct File", which allowed taxpayers to file their 2023 federal tax return online, for free and directly with the IRS. California partnered with the IRS during the pilot year, which allowed the Direct File tool to refer California taxpayers to the state's stand-alone electronic tax return filing system, CalFile, to file their California tax return. During the pilot program, Direct File had 44,000 California residents leverage the tool and file a federal return directly with the IRS. The IRS has indicated that it will make the Direct File program permanent starting with the 2025 tax filing season.
- b) *CalFile:* CalFile is the state's free, online program for taxpayers to complete and e-file their personal income tax returns directly with California. Currently, about 100,000 returns are filed annually using this free filing option. Taxpayers rely on information from their federal tax return to prepare their California tax return. Informing taxpayers about Direct File, a free federal tax filing option that would refer the taxpayer to California's CalFile program, is a comprehensive approach that would likely result in increased program participation.

- c) *Employer notifications*: California initially required employers to notify their employees about the federal EITC program by passing the Earned Income Tax Credit Information Act in 2007. In 2016, the notice requirement was expanded to include the CalEITC. In 2023, the notice requirement again expanded to include notification about the following items: VITA, specified state and federal antipoverty tax credits, and CalFile.
- d) *VITA programs*: The FTB and IRS offer a free program, VITA, to help individuals with their tax filing obligations. This program is run by volunteers who complete training with the FTB and IRS to learn to prepare basic returns for their community members. To qualify for VITA services, individuals must meet any of these qualifications:
 - i) Make less than \$58,000 (each VITA program can set specific income limitations);
 - ii) Have disabilities;
 - iii) Speak limited English; or,
 - iv) Are active duty or retired military personnel, or their dependent.
- e) *Paid tax preparation services*: According to the IRS National Taxpayer Advocate, over 54% of all individual income tax returns in 2023 were prepared by paid return preparers.¹ The amount of time the American people spend recordkeeping, gathering tax materials, filling out their taxes, and other tax-related activities makes up approximately 71% of the entire Federal paperwork burden annually. On average, including all associated forms and schedules for non-business income, individual taxpayers spend approximately eight hours and \$140 preparing their taxes each year.² Among EITC claimants, unenrolled preparers accounted for roughly 75% of the tax returns filed.

While paid tax preparers play such a critical role in tax administration and compliance, unenrolled preparers – those generally not subject to IRS regulation – account for over one-half of all preparers. The National Taxpayer Advocate has written extensively on the need to protect taxpayers from non-compliant return preparers.³ Unlike other regulated professions, there is no guarantee that an unenrolled tax return preparer has passed any exam, continues to engage in ongoing education, or meets any other minimum standard of competency to prepare federal tax returns.

The Government Accountability Office (GAO) confirmed that inaccuracies and errors made by unregulated preparers are pervasive by having its auditors pose as taxpayers visiting tax return preparation chains (which had a minimum of 10 locations). Only two

¹ *Important considerations as you select your return preparer this filing season*, IRS, National Taxpayer Advocate Blog (March 5, 2024). <https://www.taxpayeradvocate.irs.gov/news/nta-blog/important-considerations-as-you-select-your-return-preparer-this-filing-season/2024/03/>.

² *IRS Report to Congress: Inflation Reduction Act §10301(1)(B)*, IRS (May 16, 2023). <https://www.irs.gov/pub/irs-pdf/p5788.pdf>.

³ *RETURN PREPARER OVERSIGHT: The IRS Lacks a Coordinated Approach to Its Oversight of Return Preparers and Does Not Analyze the Impact of Penalties Imposed on Preparers*, IRS National Taxpayer Advocate. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/07/ARC18_Volume1_MSP_07_ReturnPreparer.pdf.

out of the 19 randomly selected preparers calculated the correct amount of refund in a GAO study.⁴ In fact, this study found that only approximately 10% of preparers at large tax preparation chains correctly calculated tax refunds. These mistakes resulted in a range of errors, shortchanging taxpayers by as much as \$52 and giving erroneously large refunds by as much as \$3,718.

REGISTERED SUPPORT / OPPOSITION:**Support**

Franchise Tax Board (Sponsor)

Opposition

None on file

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⁴ *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors*, GAO (April 8, 2014.) <https://www.gao.gov/products/gao-14-467t>.