

October 18, 2013

## CalWORKs Program Guide Letter No. 297

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**Subject**                    **CHANGES IN THE TREATMENT OF FEDERAL TAX CREDITS AND REFUNDS**

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**Effective Date**        January 1, 2013

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**Reference**                All County Information Notice (ACIN) I-88-04  
All County Letters (ACL) 11-13, 11-13E and 13-46  
CalWORKs Program Guide (CPG) Letter No. 233  
CalWORKs Program Memo No. 13-03

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**Purpose**                    To inform Family Resource Center (FRC) staff regarding changes in the treatment of federal tax credits and refunds in the CalWORKs Program, as a result of passage of the American Taxpayer Relief Act of 2012 (PL 112-240).

**Note:** CalWORKs Program Memo No. 13-03 becomes obsolete with the issuance of this CPG letter, which provided instructions about this change, pending the issuance of ACL 13-46.

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**Background**            The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 excluded federal tax refunds as income and as resources for a period of 12 months after receipt for all federal means-tested programs. These provisions were set to expire on December 31, 2012.

County Welfare Departments were notified of this provision on June 10, 2013.

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**Summary of Updates**

The following CPG chapter has been loaded to the CPG online:

<b>CPG Section</b>	<b>Title</b>	<b>Program Updates</b>
<a href="#">42-200.I.6</a>	Earned Income Tax Credits (EITC)	Sections updated to remove the December 31, 2012 expiration date.
<a href="#">42-200.I.7</a>	Making Work Pay Credit (MWPC)	
<a href="#">42-200.I.8</a>	Income Tax Refund Payments	
<a href="#">44-100.H.1</a>	Earned Income Tax Credits (EITC)	
<a href="#">44-100.H.2</a>	Making Work Pay Credit (MWPC)	
<a href="#">44-100.H.3</a>	Income Tax Refund Payments	

Changes to the CPG are noted with highlighted text.

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**Tax Credits and Refunds Regulation Changes**

There are two major changes:

- Federal tax credits and refunds received on or after January 1, 2013, are permanently excluded as **income** when determining eligibility and benefit amount in CalWORKs; and
- These tax credits and refunds are to be disregarded as a **resource** for **12 months from the date of receipt**.

Any federal tax refunds, including, but not limited to, over-withheld income tax, Earned Income Tax Credit (EITC), Child Tax Credit (CTC), or other tax credits, are to be permanently excluded as **income** in determining eligibility or the amount of benefits for CalWORKs.

Tax refunds or credits that are saved will not count against **resource** limits for **12 calendar months after the refund is received** (for both applicants and recipients) for purposes of determining eligibility or the amount of CalWORKs benefits.

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**HSS Actions**

For cases in which tax credits and refunds were incorrectly treated as income or a resource when determining eligibility for an applicant or when calculating a cash grant for a recipient, the Human Services Specialist (HSS) is required to take corrective action to re-evaluate the eligibility and recalculate prior cash grants excluding the tax credit and refund payment.

In cases that indicate an underpayment has occurred, or an applicant was denied due to a tax credit or refund payment, the HSS is required to restore any aid that the applicant or recipient was entitled to, after offsetting any existing overpayments for the case.

In addition, no overpayment may be established after December 31, 2012, for excess resources, unless the HSS has verified if the Assistance Unit (AU) resources included a tax refund or credit and those monies have been properly disregarded.

Beyond the 12 calendar months period, if the recipient's resources exceed the resource limits established, HSSs are required to discontinue aid at the end of the payment period in which resources exceed the limit, unless spent down prior to discontinuance date. **The new tax laws have no impact on this, and the current rules will continue to apply.**

The actions need to be documented in the **Maintain Case Comments** window in CalWIN.

**Example:**

"The EITC of \$3,500 reported on the QR7 received in June 2013 is exempt from resources for 12 months. The tax credit was received by the client in April 2013 and is exempt from resources through the end of March 2014."

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**Client  
Notification**

While the changes to the treatment of tax refunds and credits may not significantly impact benefit level calculations for a large number of CalWORKs recipients, the changes will allow most recipients to save more of their funds without becoming ineligible for benefits due to excess resources.

HSS shall inform CalWORKs recipients about the free tax preparation services through the Volunteer Income Tax Assistance (VITA) program. HSS shall also inform recipients that they will be able to retain these tax refunds and credits for 12 months without penalty so they do not have to "spend down" their savings in order to stay below CalWORKs resource levels and maintain eligibility.

Clients shall also be encouraged to save the extra cash for emergencies or to help them meet future financial needs, the HSS can also use this opportunity to remind clients about the benefits of restricted accounts.

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**CalFresh  
Program  
Impact**

CalFresh issued [CalFresh Program Guide \(CFPG\) Letter No. 589](#) regarding this policy change.

**Reminder:** As of February 1, 2011, Modified Categorical Eligibility (MCE) status conferred on a CalFresh household (HH) exempts all resources in the determination of eligibility, should the HH meet all other CalFresh eligibility requirements.

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**Medi-Cal  
Program  
Impact**

No Impact.

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**General Relief  
Program  
Impact**

No Impact.

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**Child Care  
Program  
Impact**

No impact.

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**County  
Medical  
Services  
Program  
Impact**

No Impact.

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**Refugee Cash  
Assistance  
Program  
Impact**

The rules regarding federal tax credits and refunds also apply to the Refugee Cash Assistance (RCA), the Entrant Cash Assistance (ECA), and the Trafficking and Crime Victims Assistance Programs (TCVAP).

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**Automation  
Impact**

No impact.

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**ACCESS  
Impact**

No impact.

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**Forms Impact**

No impact.

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**Document  
Capture  
Impact**

No impact.

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**Operational  
Impact**

No impact.

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**Quality  
Control Impact**

Quality Control will cite the appropriate error when the regulations cited in the material have not been followed.

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**Manager  
Approval**

 . Dep. Dir. 10-18-13

**RICK WANNE, MA, MFT**  
Eligibility Operations Director

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**Manager**

CalWORKs Program

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**Contact**

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RP

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