



California Budget
& Policy Center
Independent Analysis. Shared Prosperity.

calbudgetcenter.org

The CalEITC

Buiding Economic Security for California's Working Families and Individuals

@skimberCA

@CalBudgetCenter

SARA KIMBERLIN, SENIOR POLICY ANALYST

TAX TIME MATTERS

THRIVE, THE ALLIANCE FOR NONPROFITS FOR SAN
MATEO COUNTY

January 25, 2019

Key Themes

The CalEITC is a key support for workers with low incomes. Topics that will be addressed include:

- Research showing the benefits of the EITC
- Launch and recent expansions of the CalEITC
- Who can benefit and by how much
- The Governor's proposal to expand the CalEITC
- Other options to strengthen the CalEITC



What Is an Earned Income Tax Credit (EITC)?

- An EITC is a refundable tax credit for workers who file income taxes
- “Refundable” means that if the tax filer’s credit is larger than the amount of income taxes owed, the filer receives the difference as a tax refund
 - If a tax filer owes no taxes, then the filer receives the full amount of the credit as a tax refund
- The federal EITC is available to eligible workers who file federal income taxes
- California’s state EITC, the CalEITC, is available to eligible workers who file state income taxes



Research demonstrates many benefits of the federal EITC.

The CalEITC builds on the success of the federal credit.



The Federal EITC Has a Decades-Long Track Record of Success

The federal EITC:

- **Reduces poverty:** Together with the Child Tax Credit, it lifts more children out of poverty than any other policy.
- **Encourages work:** The expansion of the federal EITC in the 1990s boosted employment among single mothers more than any other factor.
- **Benefits families and children:** The credit has been linked to improved health for mothers and babies as well as to better educational attainment for young children.

Note: For a summary of research on the federal EITC, see Chuck Marr et al., *EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds* (Center on Budget and Policy Priorities: Updated October 1, 2015).



Boosting Low-Income Families' Incomes Can Improve Children's Life Chances



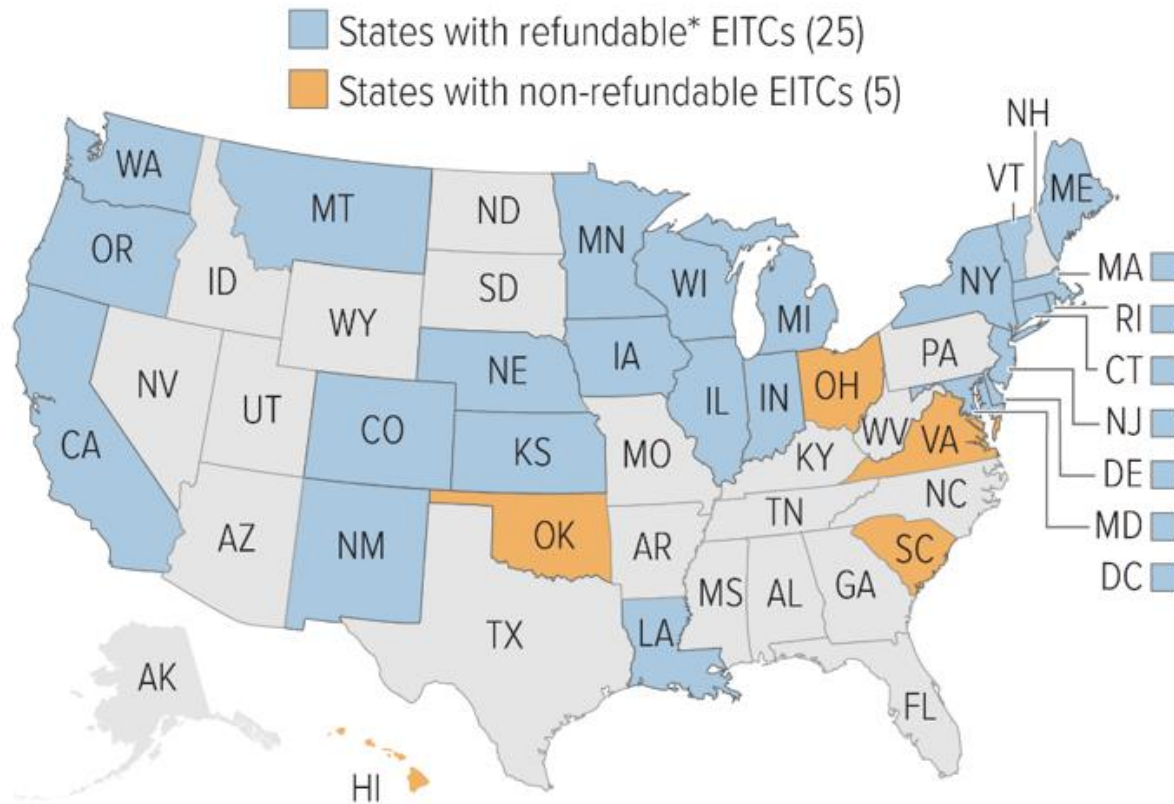
For each **\$3,000 a year** in added income that children in low-income families received before age 6...

...their **annual earnings** between ages 25 and 37 **increased by 17%.**

The CalEITC: A State-Level Policy to Boost Workers' Incomes



Twenty-Nine States and D.C. Have Enacted Earned Income Tax Credits (EITCs), 2018



Note: Refundability in Delaware is pending action by the state's governor.

*Refundable EITCs give working households the full value of the credit they earn even if it exceeds their income tax liability.

Source: Center on Budget and Policy Priorities



Advantages of the CalEITC as State Policy

- Has strong, diverse, and bipartisan political support in California
- Takes advantage of the existing income tax infrastructure
- Complements the federal EITC
- Not directly linked to federal policy, so can be specifically designed to address state-level policy priorities







**Income Limit
Linked to
Minimum Wage
& Self-Employed
Included**

**Age Limit
Extended &
Income Limit
Modestly
Raised**

2015

2016

2017

2018



The CalEITC Boosts Low Incomes of Working Families and Single Adults

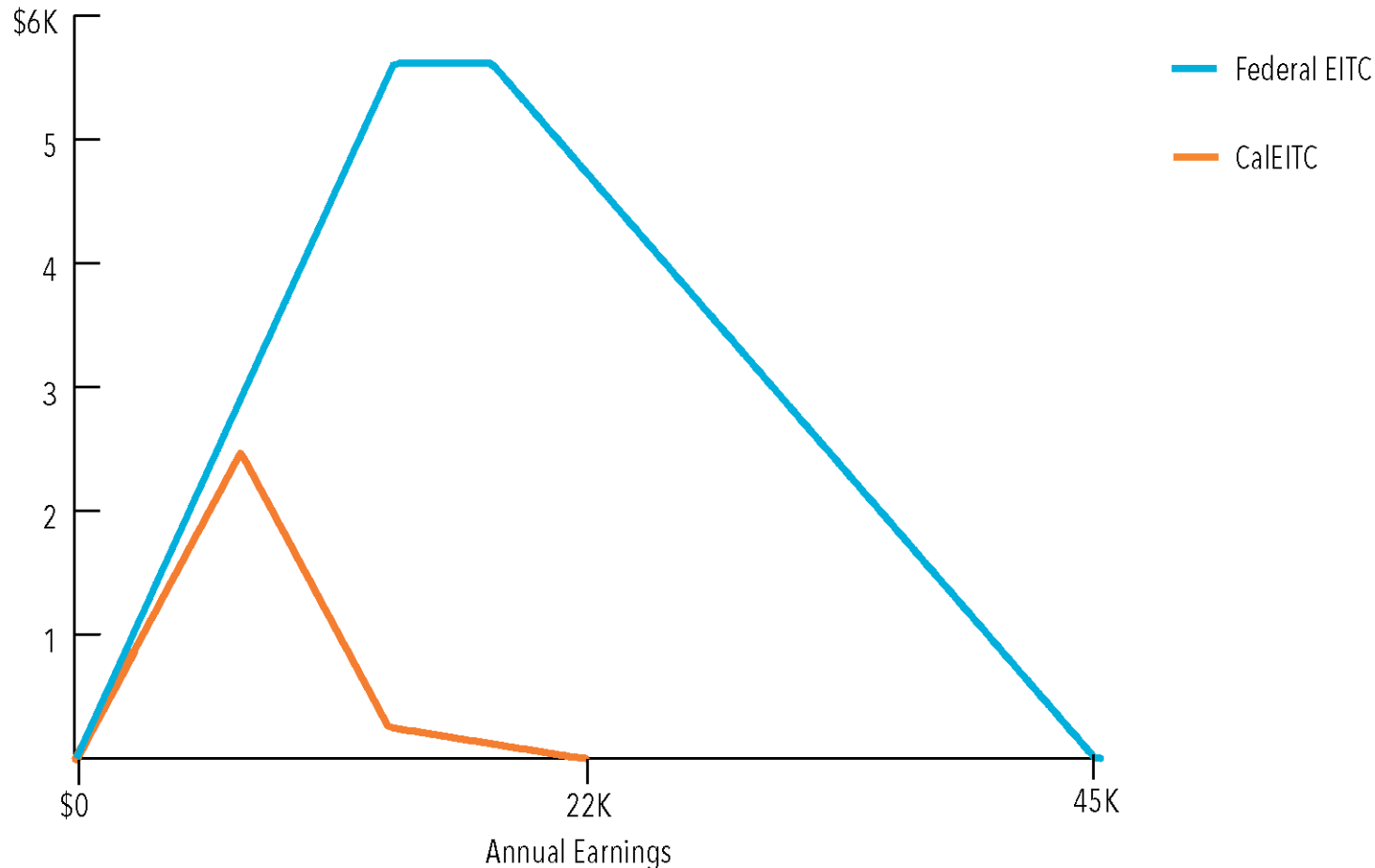
As of 2018, the CalEITC is available to:

- Workers of any age with dependent children with earnings up to about \$25,000
- Workers ages 18 or older without dependent children with earnings up to nearly \$17,000
 - *Among those without children, workers ages 18 to 24 and ages 65 or older are eligible to claim the CalEITC for the first time for tax year 2018*



The CalEITC Provides an Additional Income Boost to Working Families and Individuals With Low Incomes

Federal & California Earned Income Tax Credits, Unmarried Parents With Two Children, 2017

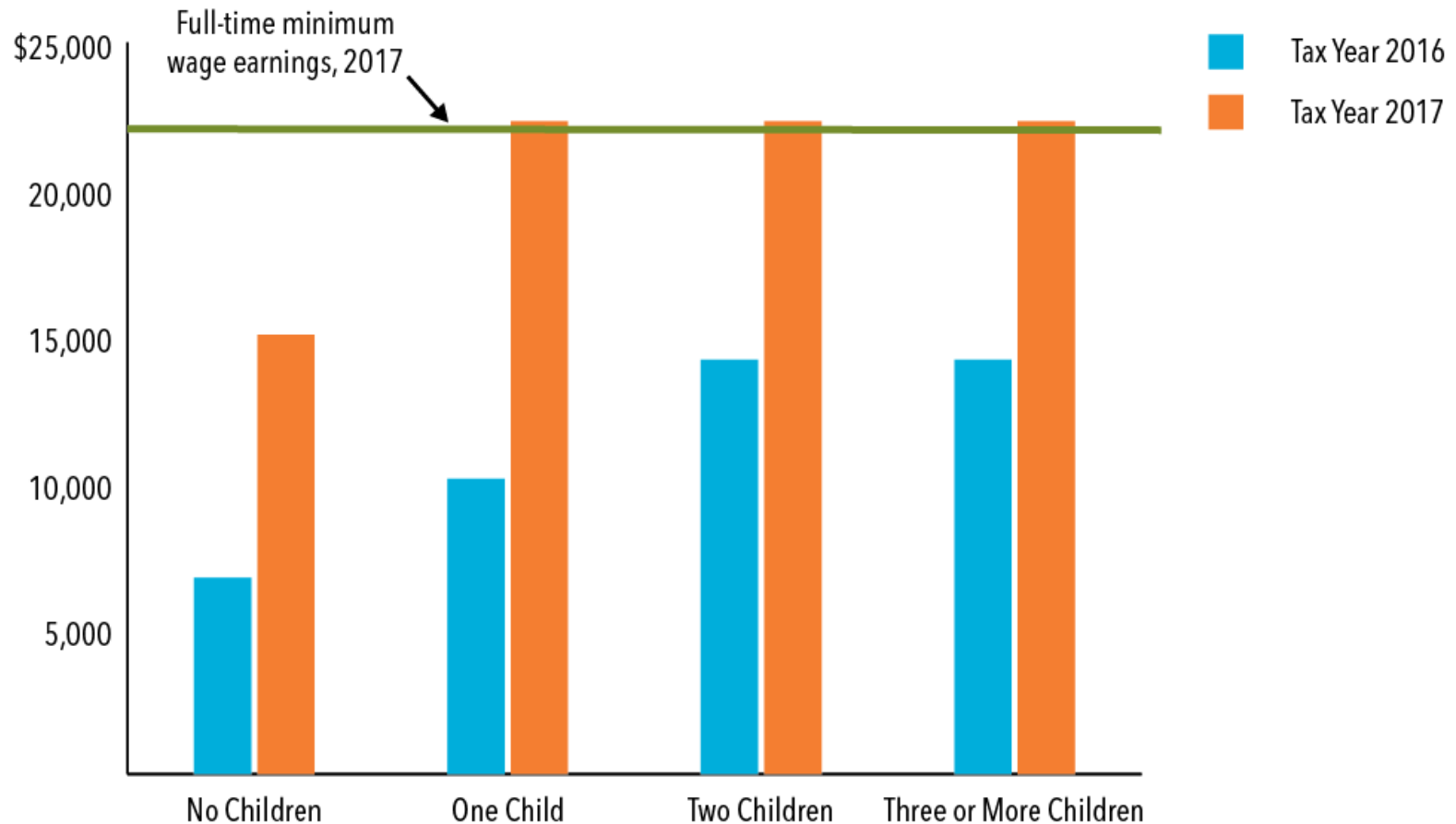


Source: Budget Center analysis of Section 17052 of the California Revenue and Taxation Code and Section 32 of Title 26 of the Internal Revenue Code



Single Parents Working Full-Time at the Minimum Wage Became Eligible for the CalEITC for Tax Year 2017

Total CalEITC Income Limits by Number of Qualifying Children



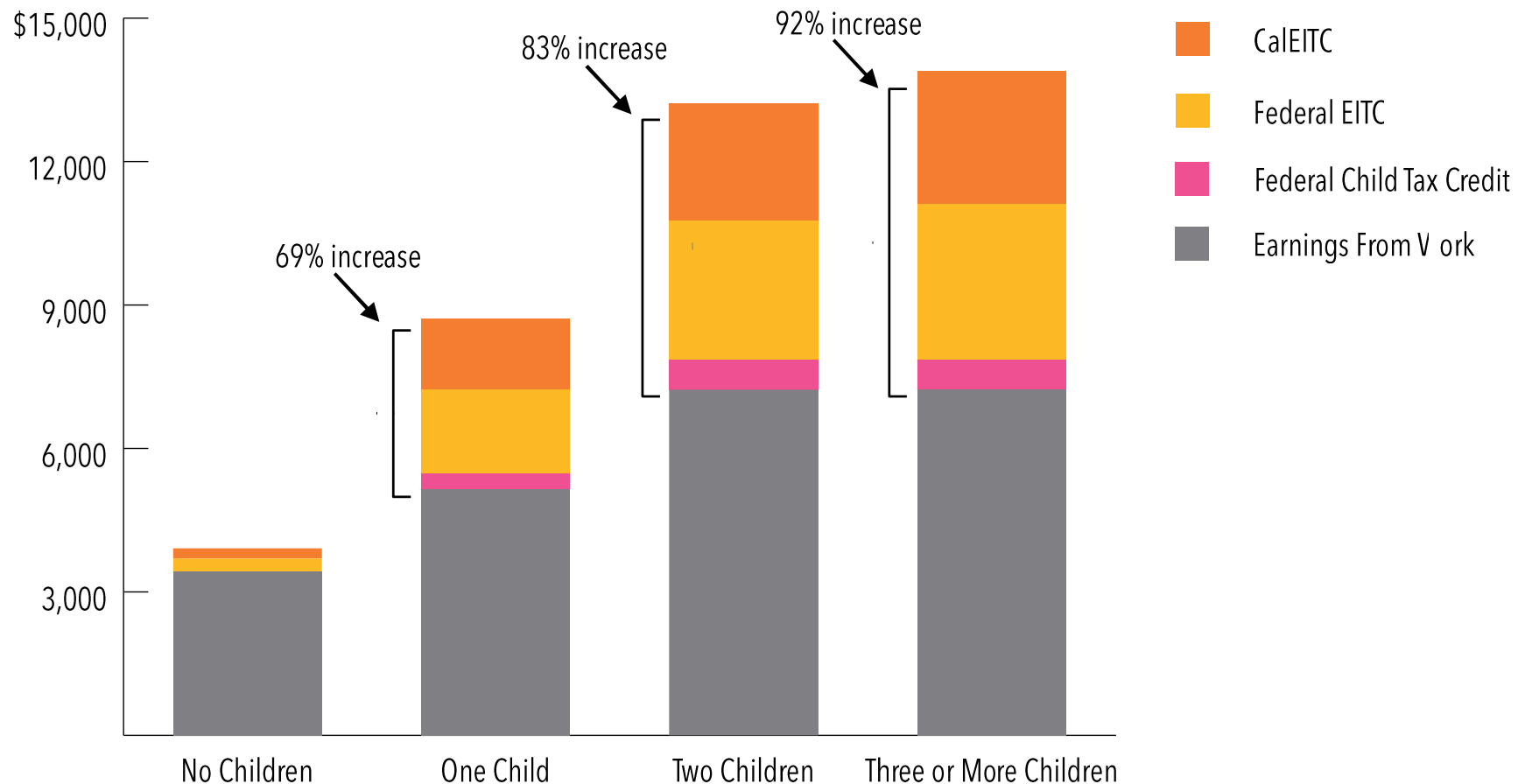
Note: Minimum wage earnings reflect the \$10.50 per hour state minimum wage for workers at large businesses that took effect on January 1, 2017.

Source: California Budget & Policy Center analysis of Section 17052 of the California Revenue and Taxation Code



The CalEITC, Together With Federal Credits, Significantly Boosts the Incomes of Working Families With Children

Increase in Income From Tax Credits for Workers Qualifying for the Maximum CalEITC, 2017



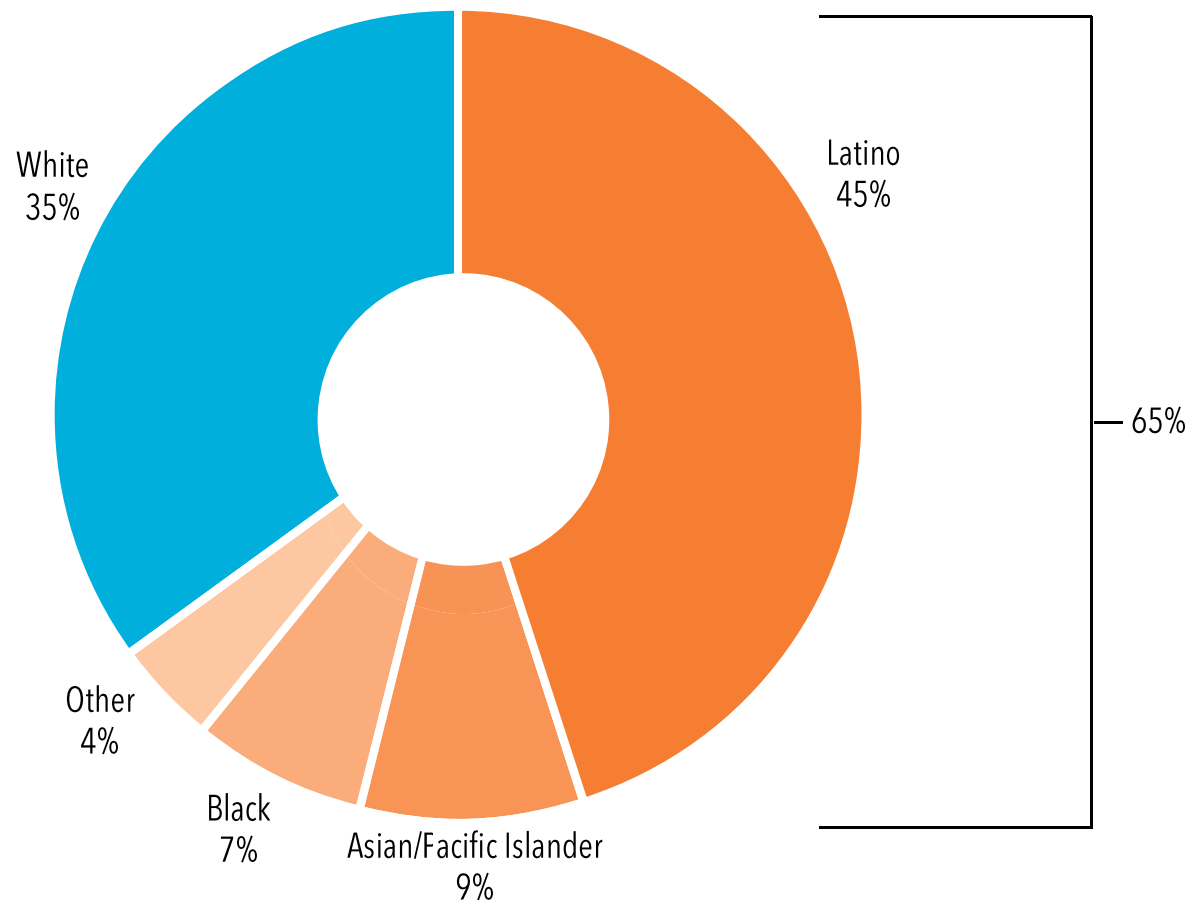
Source: Budget Center analysis of the California and federal Earned Income Tax Credits (EITCs) and the federal Child Tax Credit



California Budget
& Policy Center

Nearly 2 in 3 Working Young Adults Who Became Eligible for the CalEITC in 2018 Are People of Color

Race/Ethnicity of Those Newly Eligible for the CalEITC Extension to Young Adults Without Kids



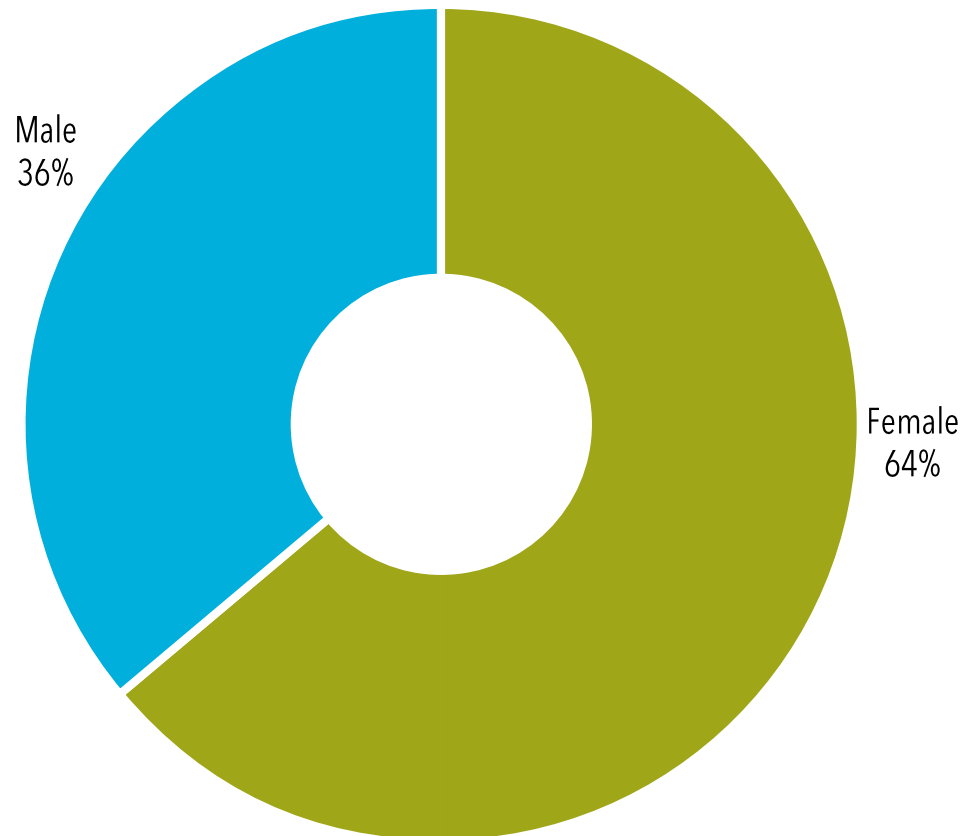
Note: Analysis uses an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California. Based on CalEITC parameters as of tax year 2017, modeled in 2015 population data, lowering the minimum allowed age for tax filers without children from 25 to 18.

Source: Budget Center analysis of US Census Bureau, American Community Survey data



Nearly 2 in 3 Working Older Adults Who Became Eligible for the CalEITC in 2018 Are Women

Gender of Those Likely Newly Eligible for the CalEITC Extension to Seniors Without Children



Note: Analysis uses an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California. Based on CalEITC parameters as of tax year 2017, modeled in 2015 population data, eliminating the 64-year-old upper age limit for tax filers without children. Does not include tax filers using an Individual Taxpayer Identification Number (ITIN), who are currently excluded from claiming the CalEITC. Source: Budget Center analysis of US Census Bureau, American Community Survey data



Governor Newsom Has Proposed Expanding the CalEITC

The Governor's January 2019 Budget Proposal includes:

- Extending the credit to filers with slightly higher incomes, up to about \$30,000 (roughly full-time earnings at \$15/hour)
- Increasing the credit amount for families and individuals who currently receive small credits
- Providing an additional \$500 credit for families with children under age 6



Options for Further Strengthening the CalEITC

Some policy options that could further strengthen the CalEITC include:

- Extending the credit to immigrant workers who file taxes with an Individual Taxpayer Identification Number (ITIN)
- Allowing a monthly payment option as an alternative to the existing lump-sum payment
- Increasing the availability of free tax preparation services



The Bottom Line

- Research shows many benefits of the federal EITC, which the CalEITC builds on
- The CalEITC can significantly boost the incomes of workers with low incomes
- Recent expansions make the credit newly available to workers with somewhat higher incomes and to working young adults and seniors
- Future expansions proposed by the Governor or advocates could further strengthen the CalEITC







California Budget
& Policy Center

Independent Analysis. Shared Prosperity.

1107 9th Street, Suite 310

Sacramento, California 95814

916.444.0500

skimberlin@calbudgetcenter.org

@CalBudgetCenter

@skimberCA

calbudgetcenter.org