



California Budget
& Policy Center
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Expanding the CalEITC: A Smart Investment to Broaden Economic Security in California

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The *Policy Perspectives Speakers Series* is a year-round, free event series that provides expert analysis and insights on critical issues facing California.

Thank you for making this event possible:



California Budget
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Overview of the Presentation

- Economic context that shows why we need policies like the CalEITC
- Research on the benefits of EITCs that shows why these credits are important
- Key features of the CalEITC and how it works currently
- Overview of the proposed expansion of the CalEITC and demographics of people who would benefit
- Issues policymakers should consider and additional ways to build on and strengthen the CalEITC

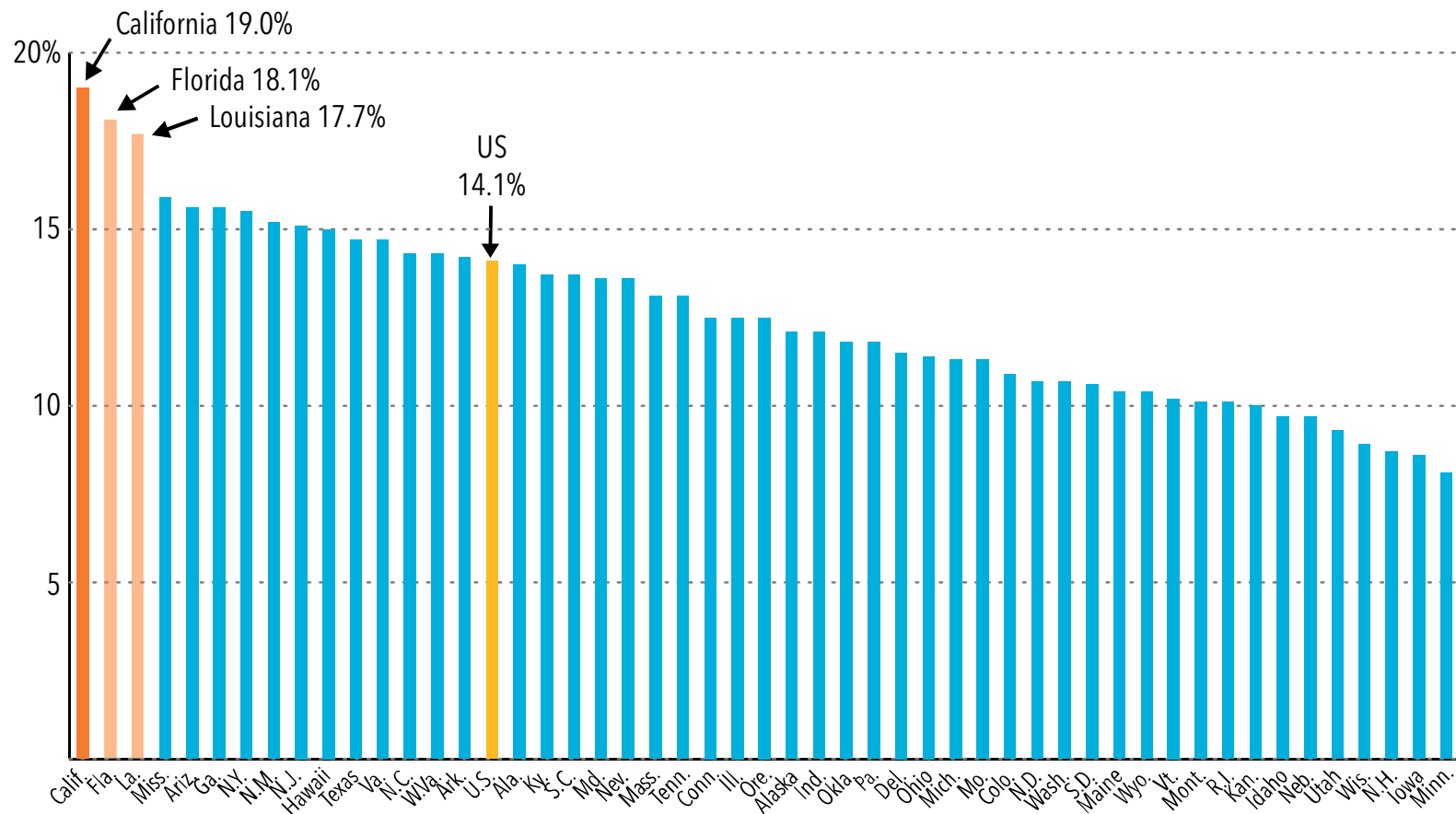


California Is an Economic Powerhouse, but Millions Are Not Benefiting From the State's Economic Success



California Has One of the Highest Poverty Rates of the 50 States Under the Supplemental Poverty Measure

State Poverty Rate Under the Supplemental Poverty Measure, 2015-2017



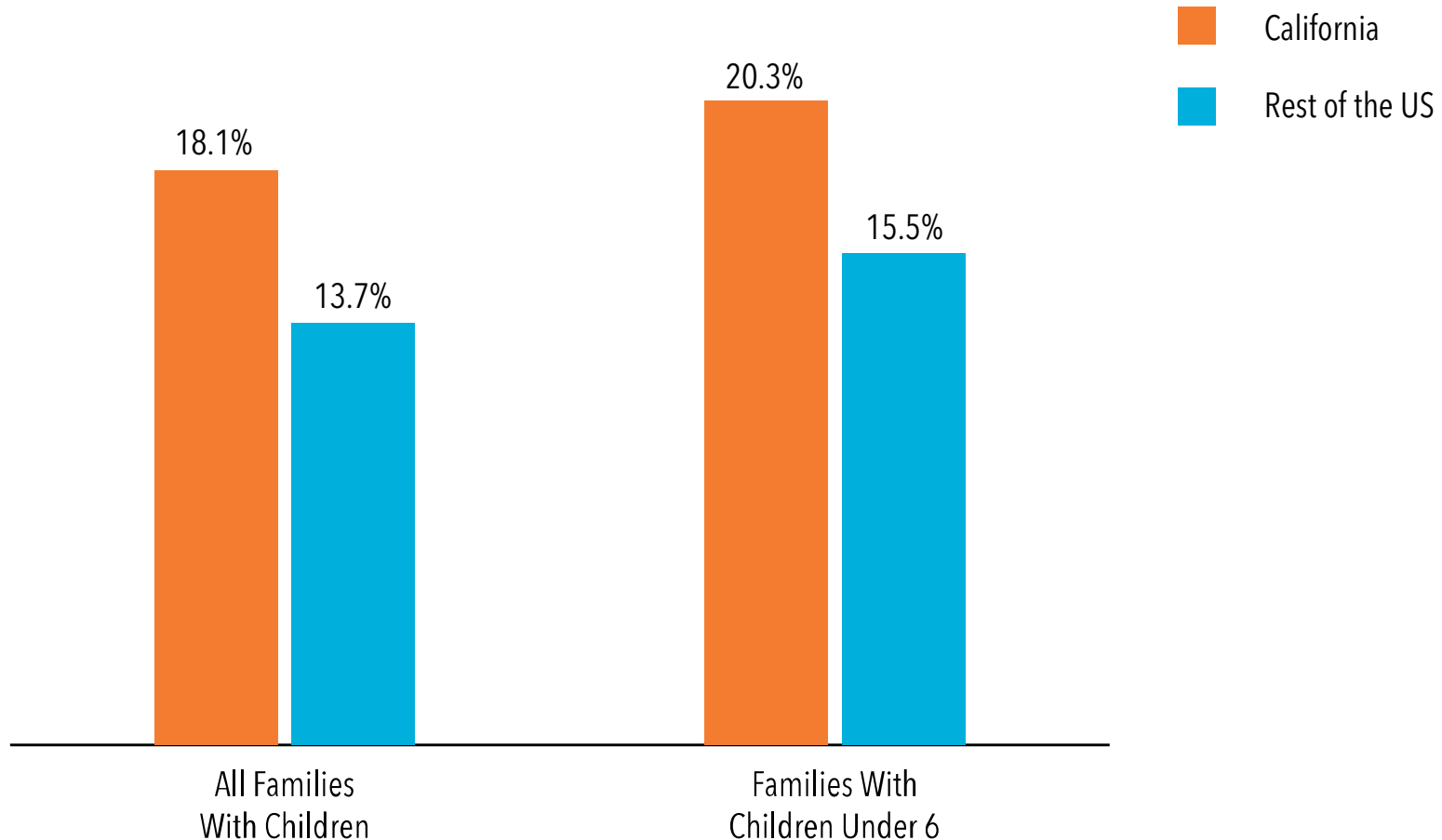
Note: Poverty rates for California, Florida, and Louisiana are not statistically different.

Source: US Census Bureau, Current Population Survey



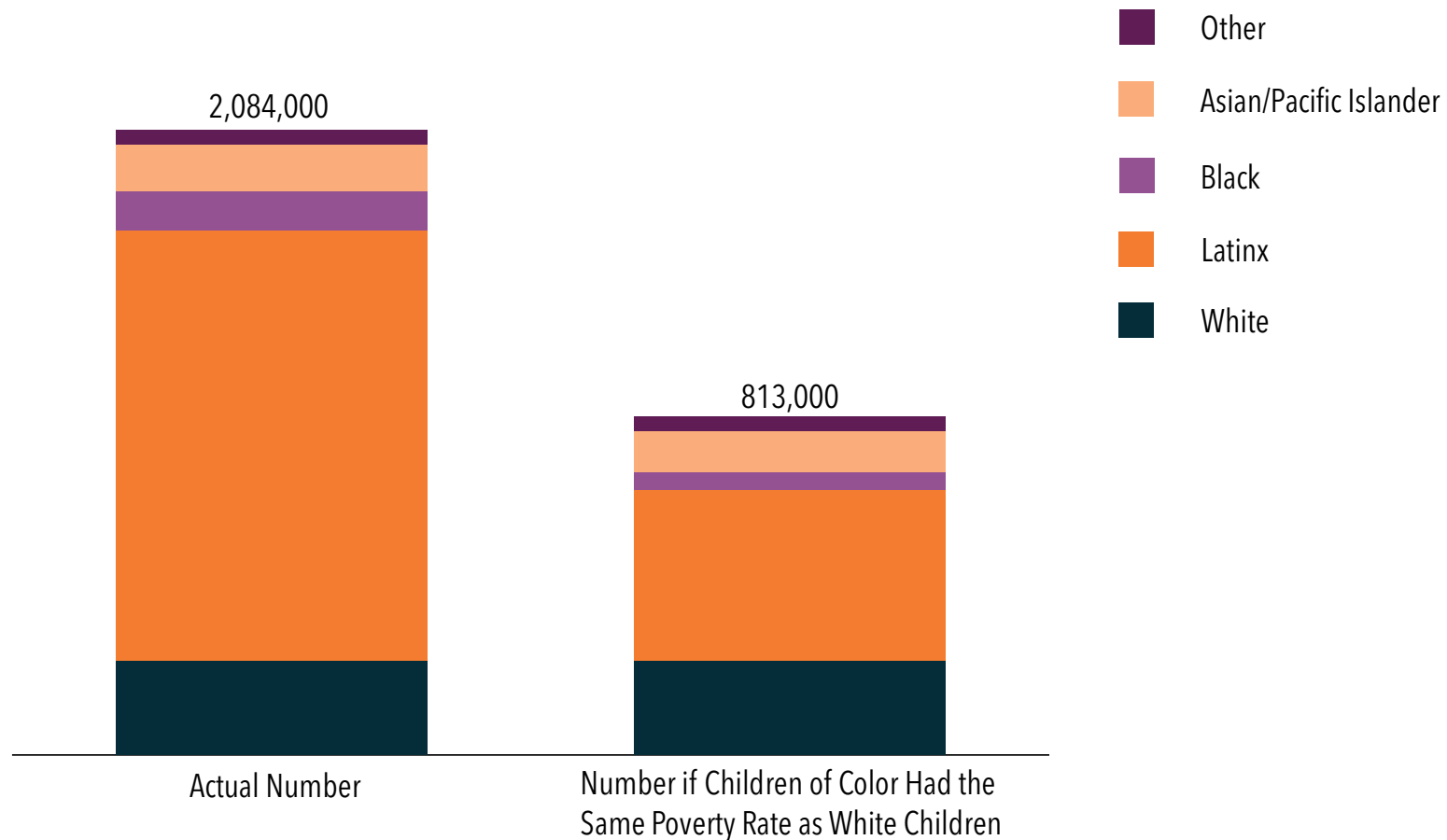
Families With Children Are Significantly More Likely to Live in Poverty in California Than in the Rest of the US

Poverty Rate Based on the Supplemental Poverty Measure, 2017



If the Poverty Rate for Children of Color Were as Low as That for White Children, 957,000 Fewer Kids Would Be in Poverty

Number of California Children in Poverty, 2013-2017



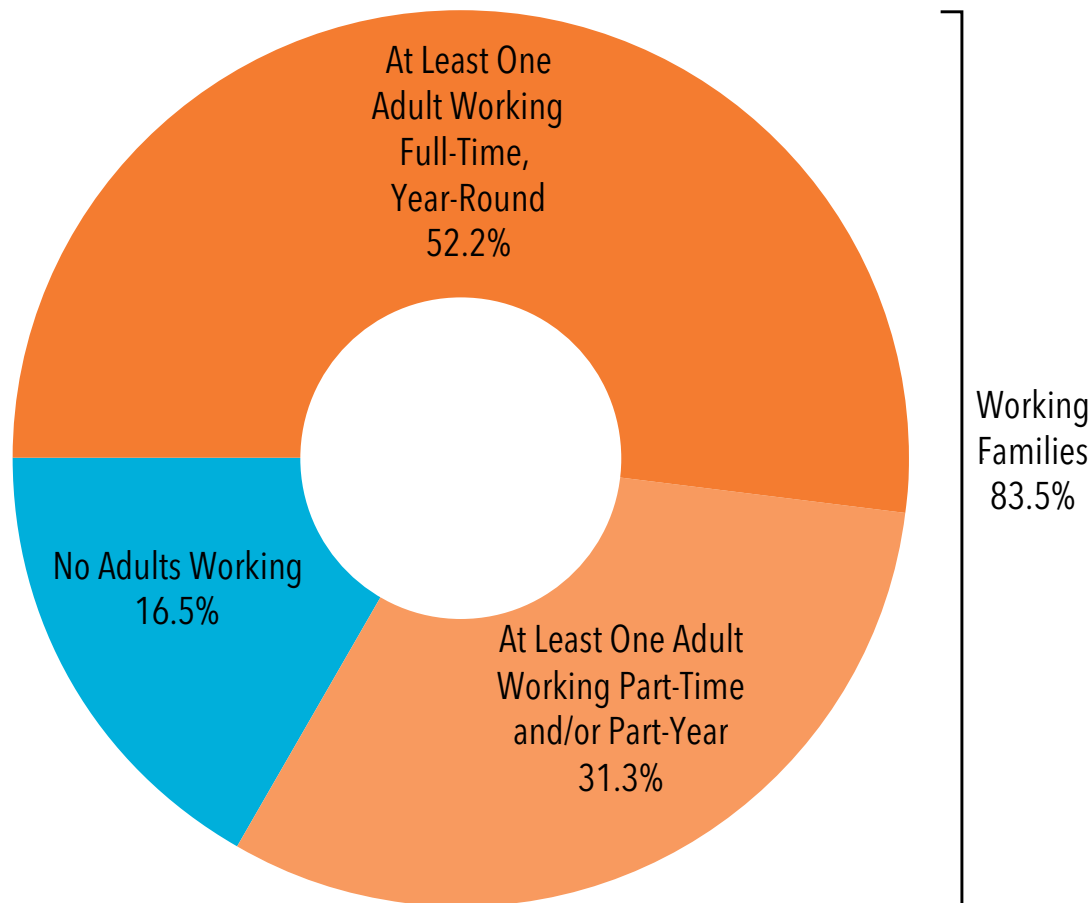
Note: Analysis is based on the Supplemental Poverty Measure. Racial and ethnic groups are mutually exclusive. Due to data limitations, children who were not identified as Asian/Pacific Islander, black, Latinx, or white were grouped into an "other" category.

Source: Budget Center analysis of US Census Bureau, Current Population Survey data



More Than 8 in 10 California Children in Poverty Live in Working Families

Percentage of California Children in Poverty Based on the California Poverty Measure, 2016

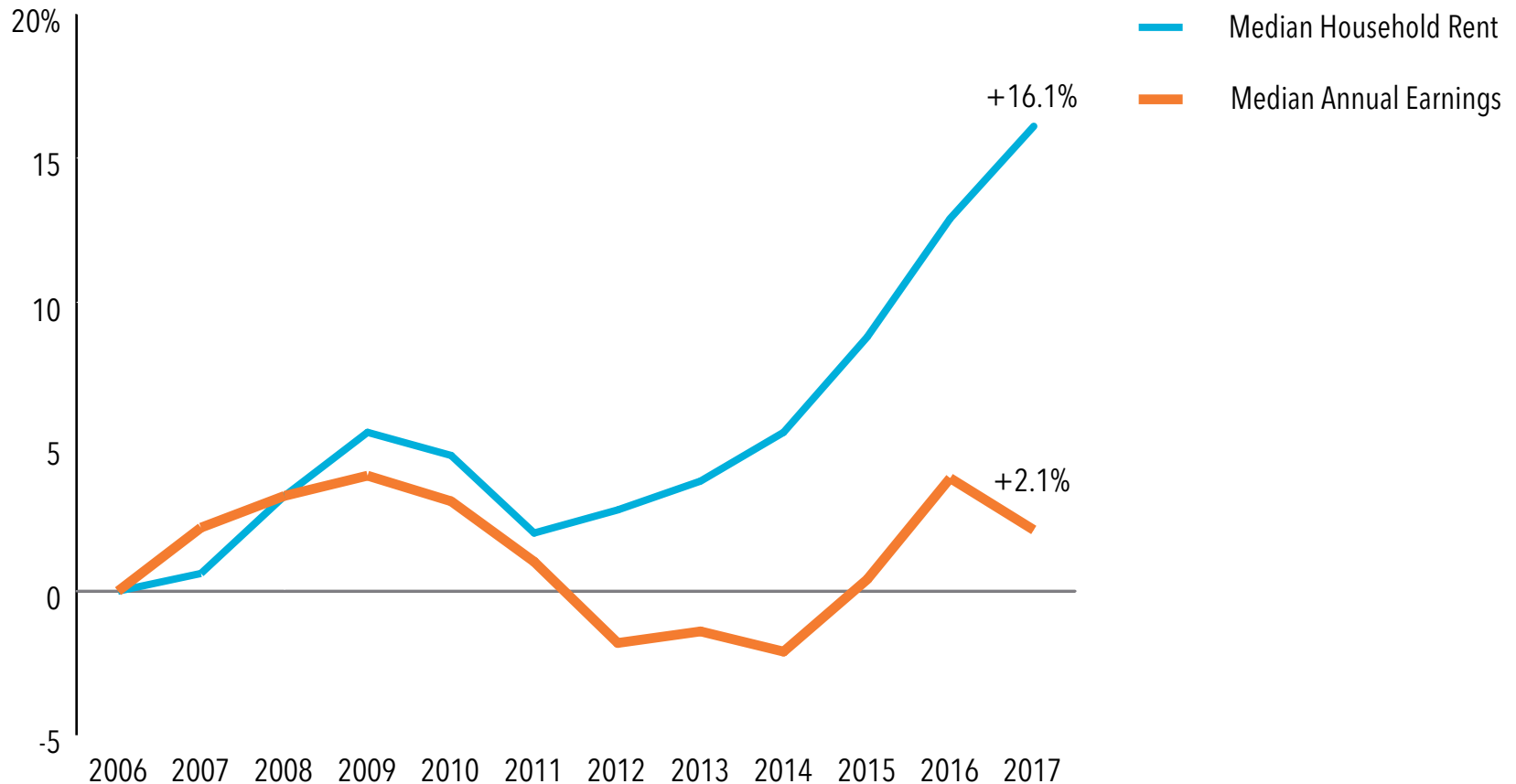


Source: Public Policy Institute of California



Workers' Earnings Have Not Kept Pace With Rents in California

Percent Change in Inflation-Adjusted Median Rent and Median Annual Earnings Since 2006



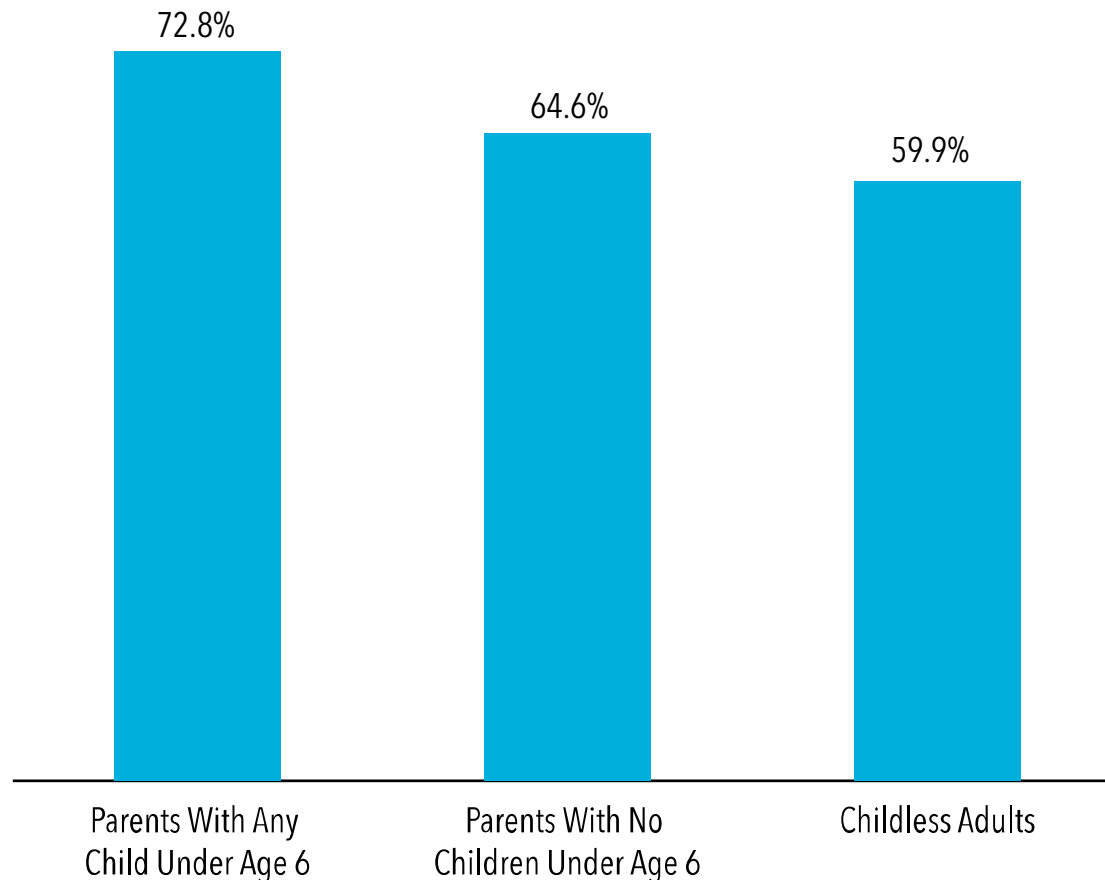
Note: Median annual earnings for individuals working at least 35 hours per week and 50 weeks per year. Excludes workers with \$0 or negative total earnings.

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



The Majority of Low-Income Parents and Childless Adults Have Difficulty Meeting Basic Needs

Percentage of US Adults With Incomes Below Twice the Poverty Line Who Experienced Hardship, 2017



Note: Poverty line is based on the Official Poverty Measure. Hardship includes the inability to afford housing, utilities, medical bills, or sufficient food in the past year. Adults are ages 18 to 64.
Source: Urban Institute



**Policies like the CalEITC
increase economic security
for people who are struggling
to make ends meet.**



The CalEITC Is a Refundable State Tax Credit Modeled After the Federal EITC

- **Established in 2015, the CalEITC boosts the incomes of workers with low earnings.** Specifically, the credit:
 - Reduces the amount of state income tax that people owe based on how much they earn from work and how many children they support.
 - Is refundable, meaning that people who qualify for a credit that exceeds what they own in state income tax receive the balance as a tax refund. People who do not owe any state income tax get the full CalEITC that they qualify for as a refund.



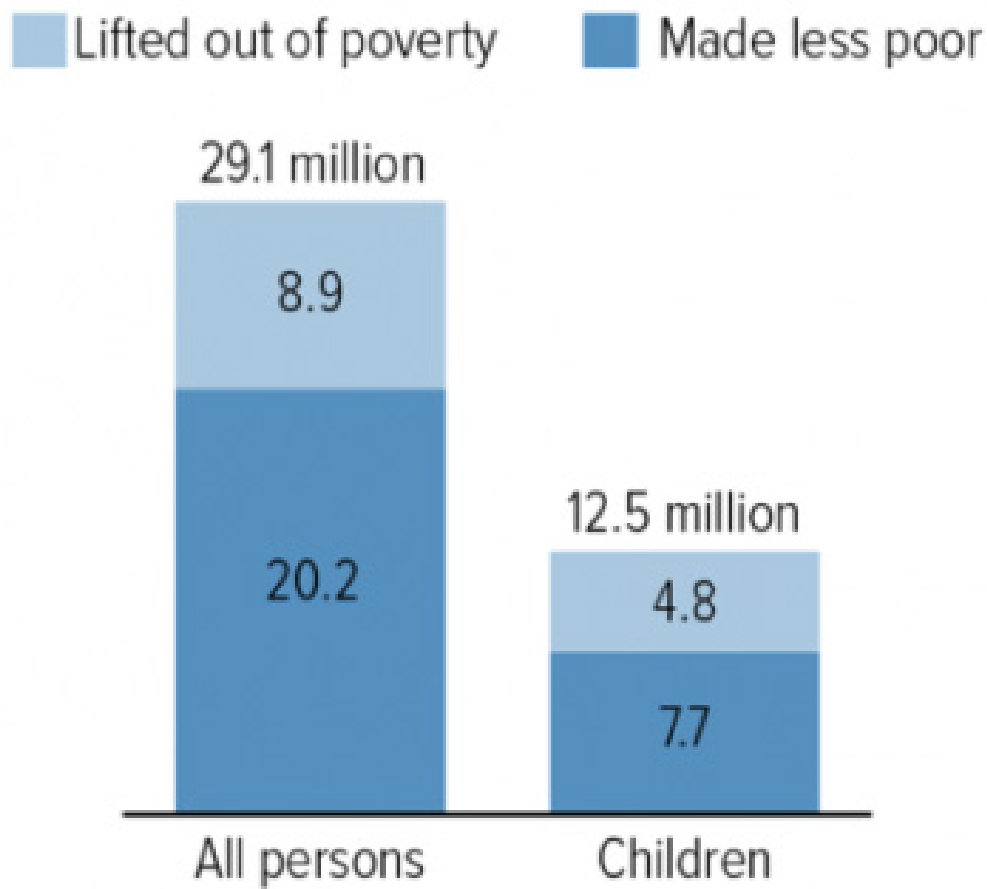
Research Demonstrates Many Benefits of the Federal EITC for Families, Children, and Communities

The CalEITC builds on the success of the federal credit.



The Federal EITC, Together With the Child Tax Credit, Reduces Poverty and Economic Insecurity

Number of People Affected by the Federal EITC and Child Tax Credit, 2017

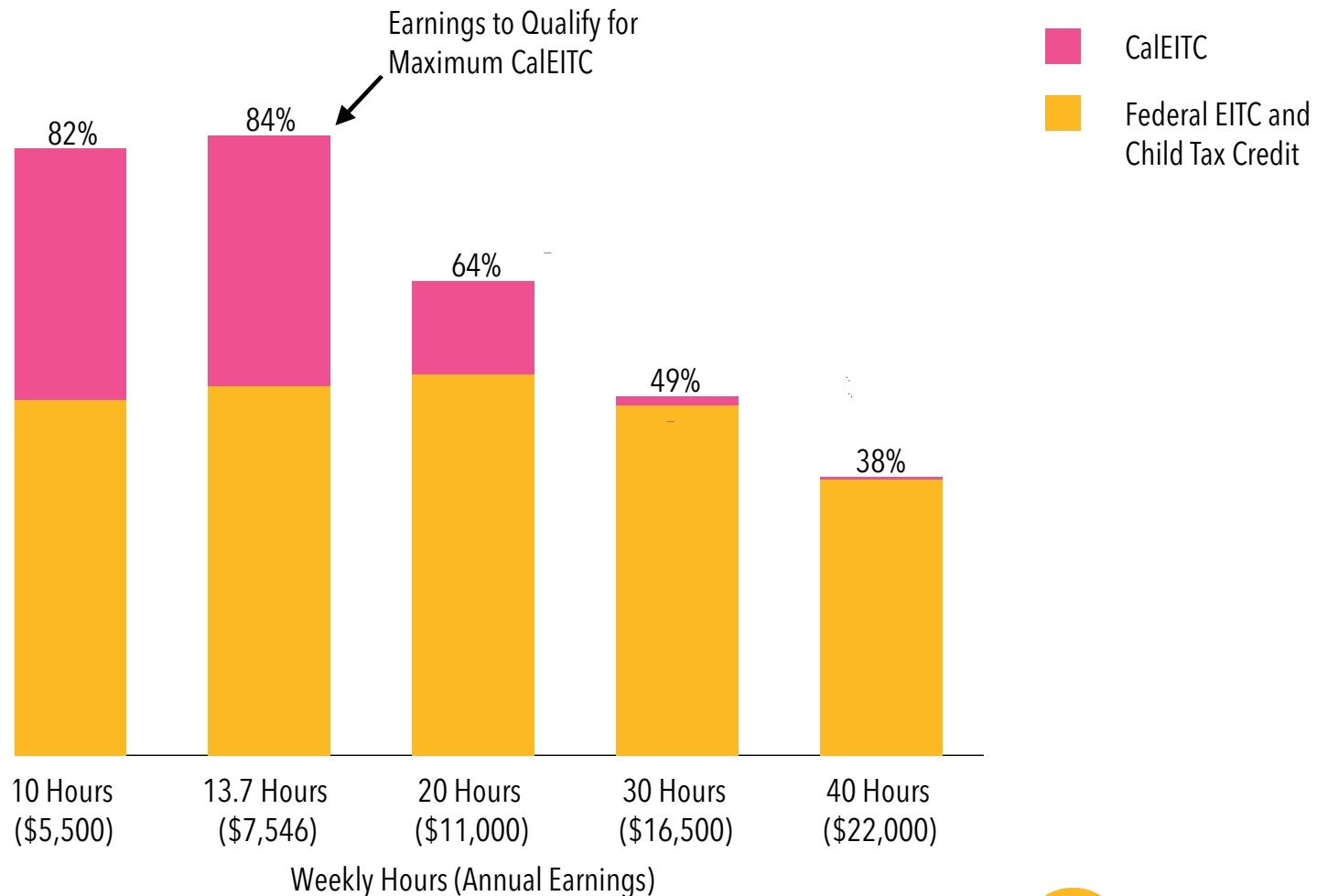


Note: Analysis is based on the US Census Bureau's Supplemental Poverty Measure.
Source: Center on Budget and Policy Priorities analysis of US Census Bureau data



The CalEITC, Together With Federal Tax Credits, Significantly Boosts the Incomes of Families With Low Earnings From Work

Percent Increase in Income for Parents With Two Children, Tax Year 2018



Note: Assumes an \$11 hourly wage and 50 weeks of work per year.

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



The Federal EITC May Improve Health for Mothers, Babies, and Communities



The Federal EITC May Boost Children's School Achievement



The Federal EITC May Increase Children's Educational Attainment



The Federal EITC May Increase Children's Future Earnings



The Federal EITC Boosts California-Based Businesses and the State's Economy

Families' spending boosts business sales which supports jobs



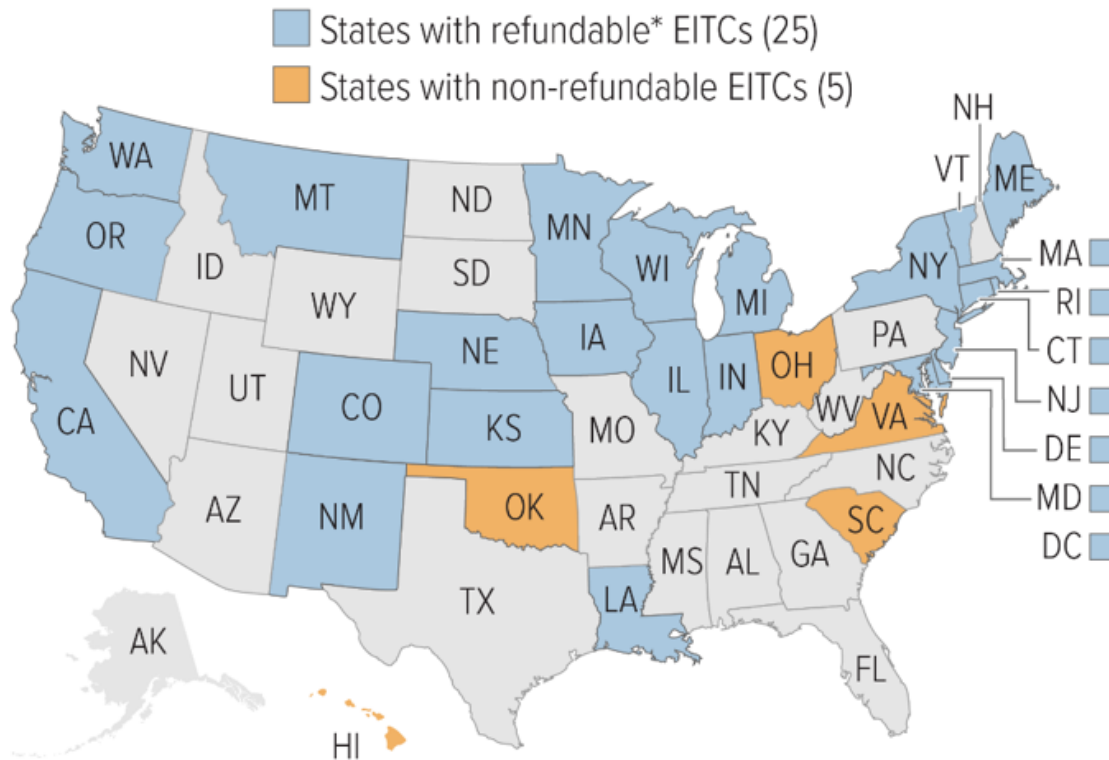
and increases state and local revenues.



State EITCs Enhance the Benefits of the Federal EITC



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



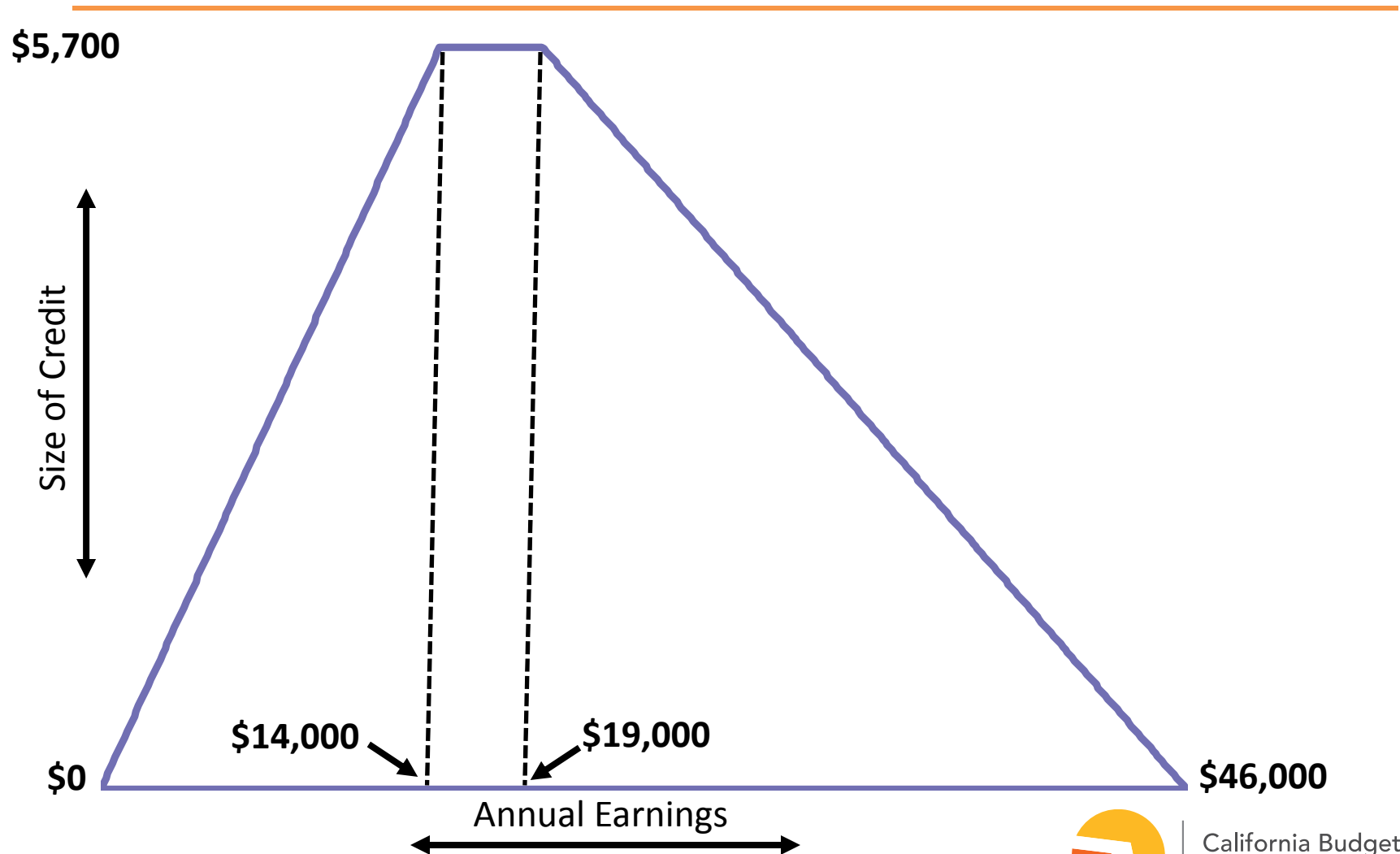
Note: Refundability in Delaware is pending action by the state's governor.

*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



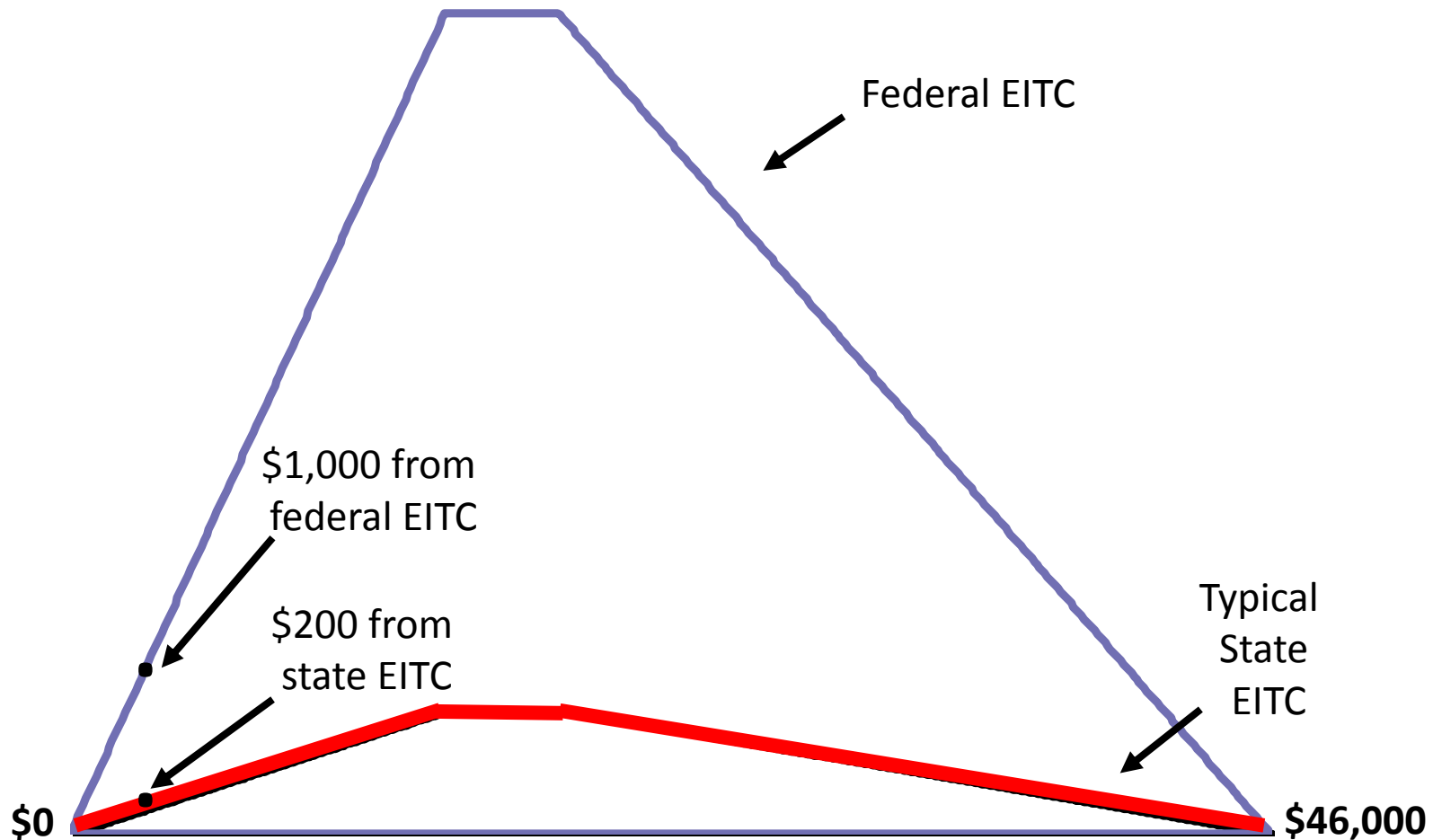
For Higher Levels of Earnings, the Federal EITC “Phases in,” Plateaus, and Then “Phases Out”



Note: Federal and typical state EITC is for head-of-household filers with two children.



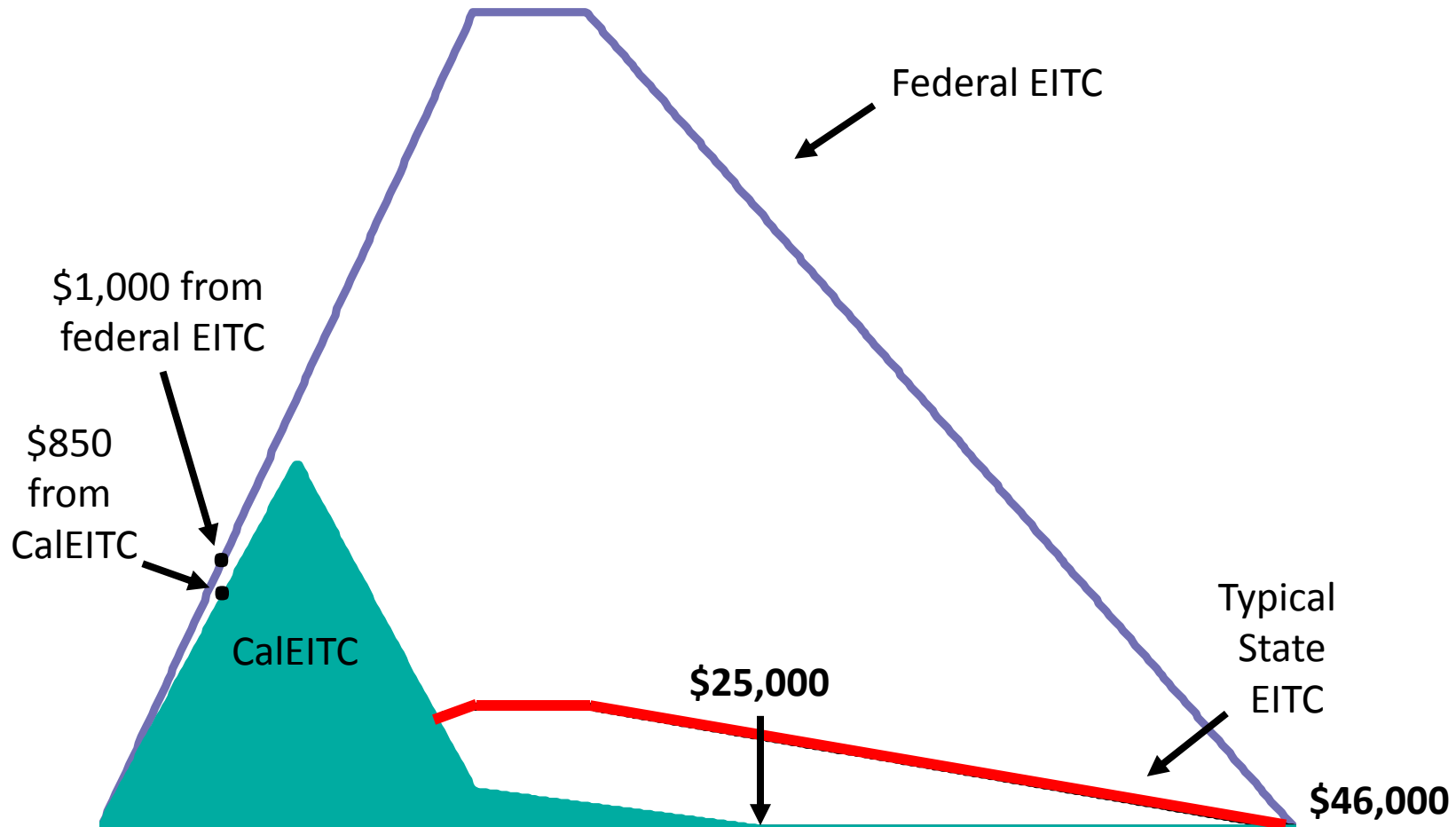
The Typical State EITC Provides a Credit to Every Tax Filer Who Qualifies for the Federal EITC, and the State Credit Is Often 20% or Less of the Federal Credit



Note: Federal and typical state EITC is for head-of-household filers with two children.



The CalEITC Is Available to Only a Portion of Tax Filers Who Qualify for the Federal EITC, but Those With Very Low Incomes Qualify for a Large State Credit

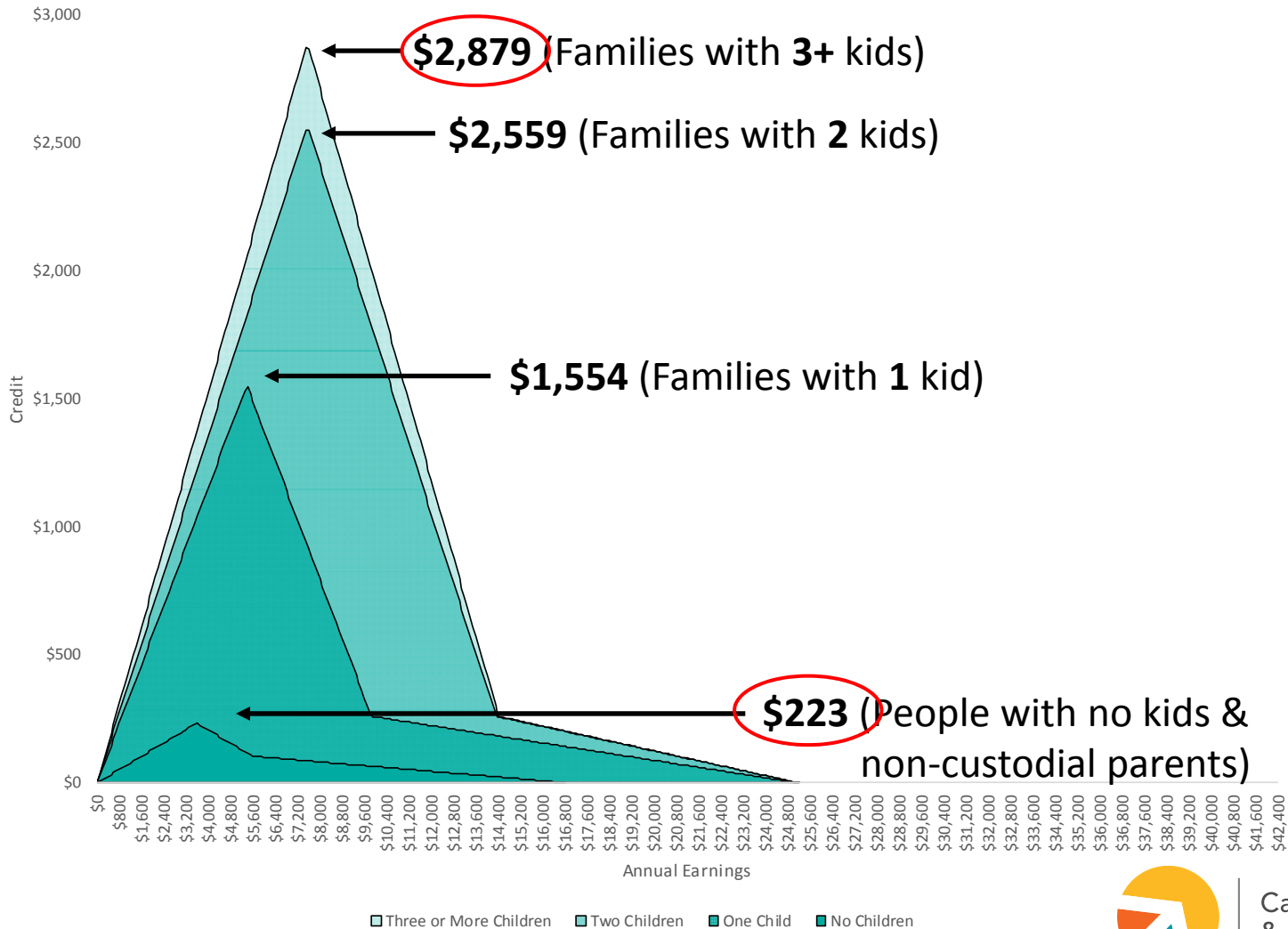


Note: Federal and typical state EITC is for head-of-household filers with two children. CalEITC is for head-of-household and married filing-joint filers with two children.



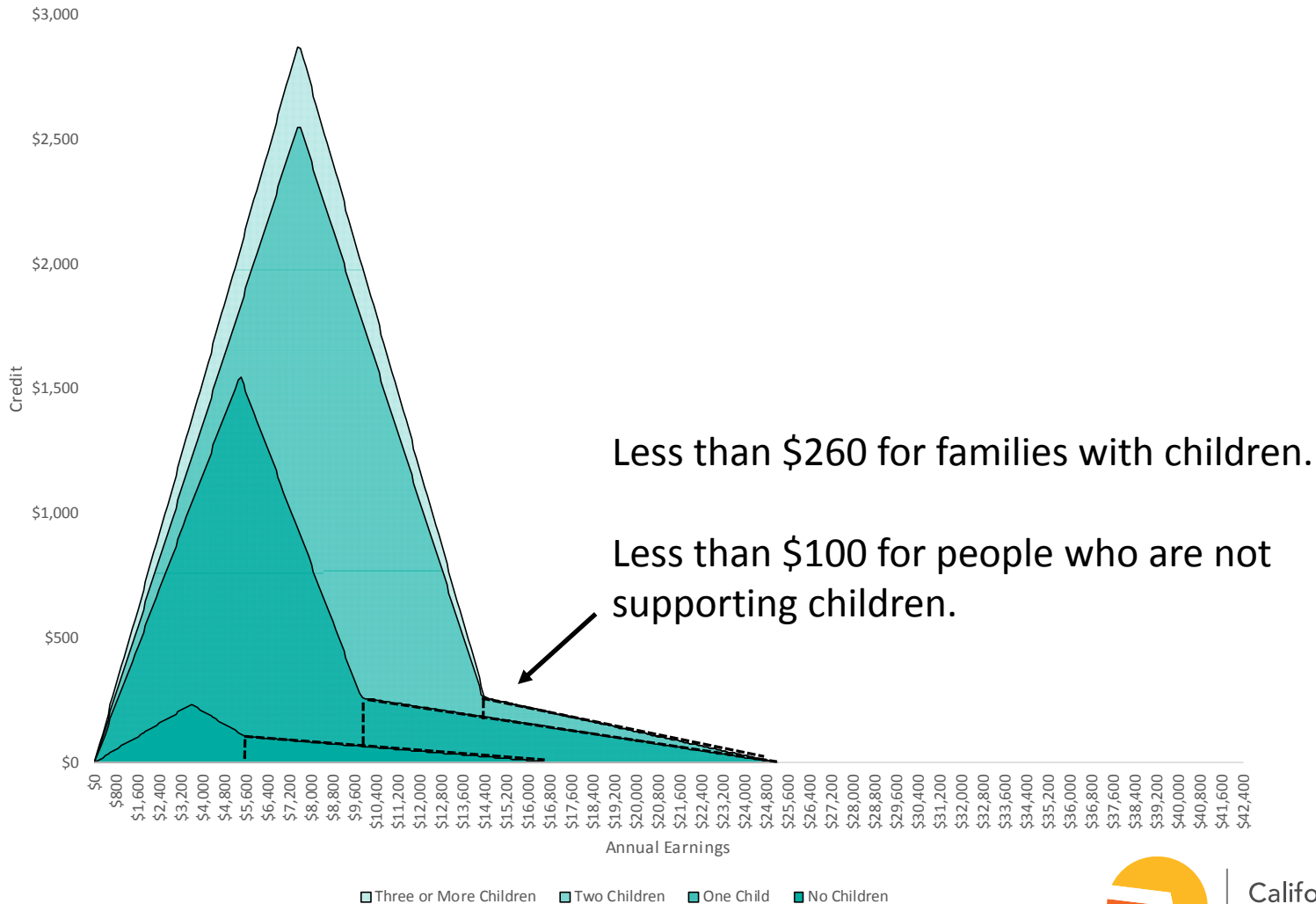
The Maximum CalEITC for Families With Children Is Large

CalEITC Tax Year 2018



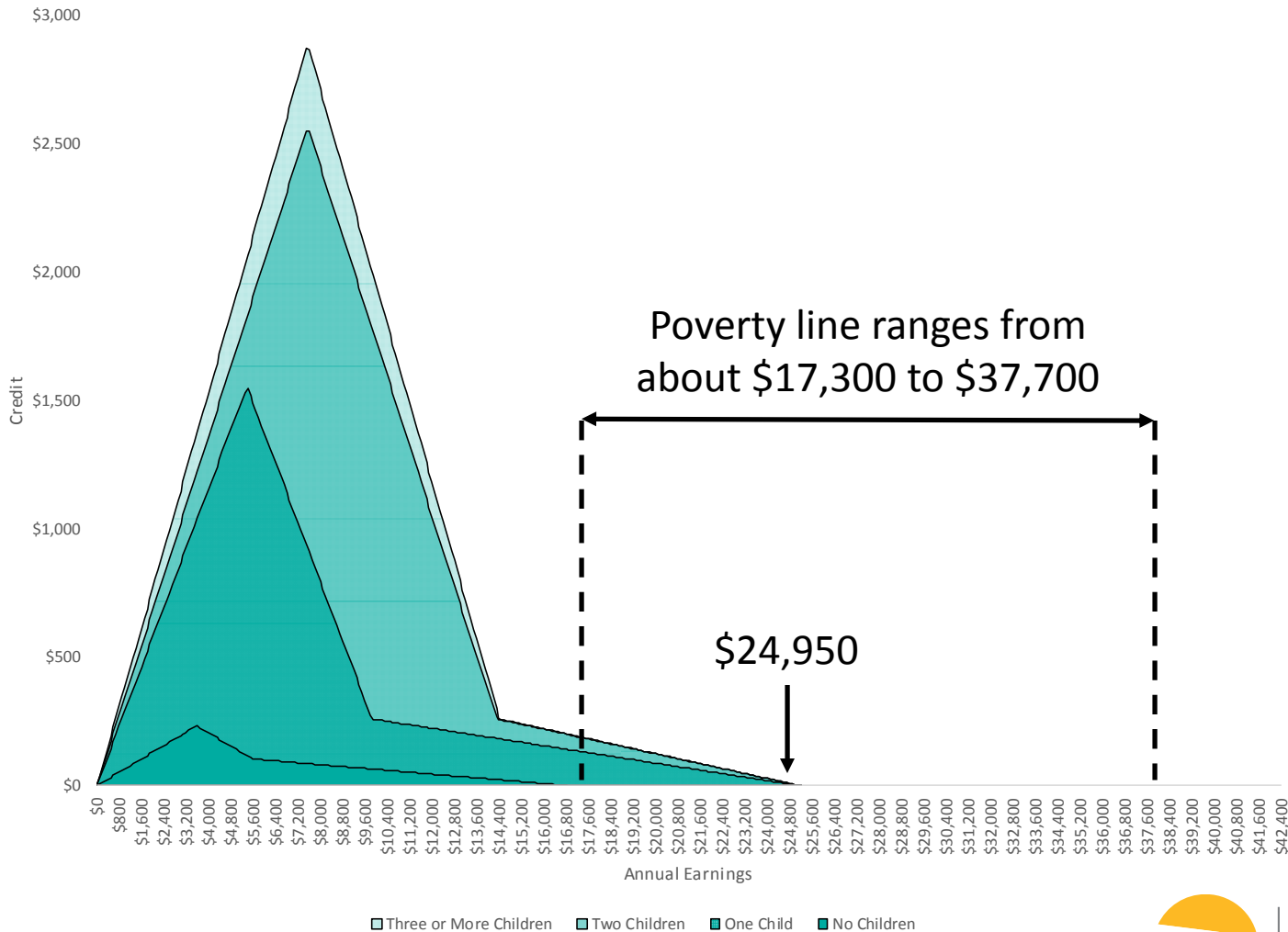
But Many Tax Filers Qualify for Relatively Small Credits

CalEITC Tax Year 2018



For Families With Kids, the Income Limit to Qualify for the CalEITC Is Below the Poverty Line in Many Parts of the State

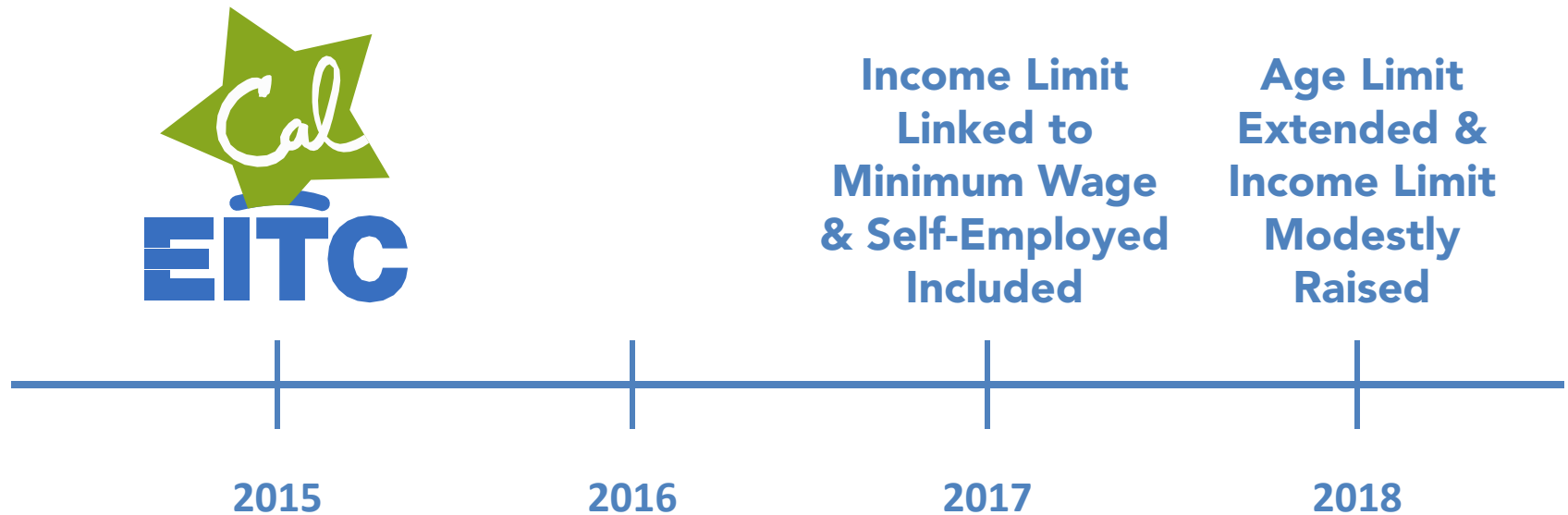
CalEITC Tax Year 2018



Note: Poverty thresholds are for renters based on the Supplemental Poverty Measure.



Previous CalEITC Expansions Have Increased the Credit's Reach



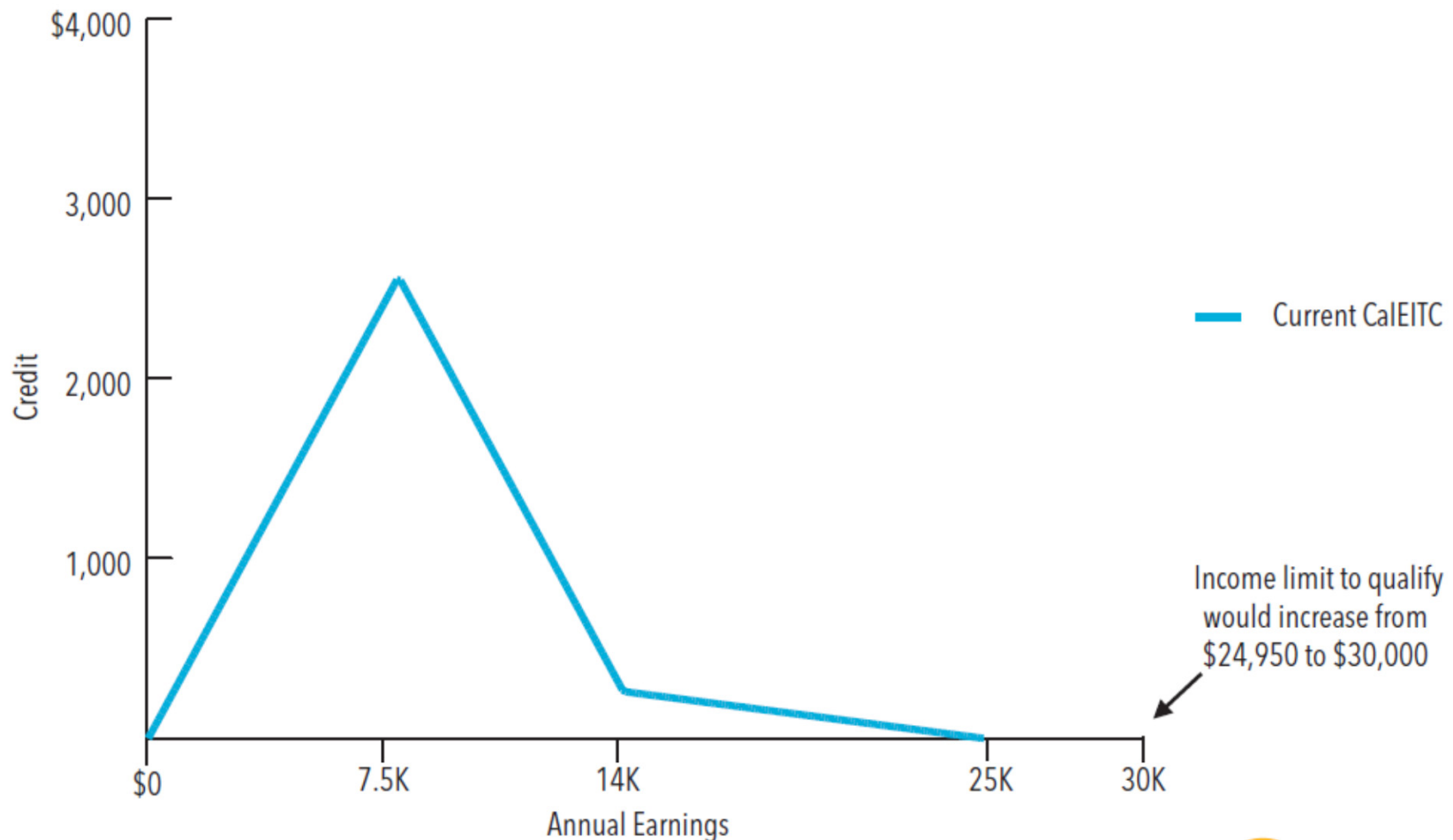
The Governor's Proposed 2019-20 Budget Would Significantly Expand the CalEITC.

**If approved, this expansion would be the
largest since the credit was established.**



The Proposed Budget Would Increase the Size of the CalEITC and Extend the Credit to More Tax Filers

CalEITC for Parents With Two Children, Tax Year 2018



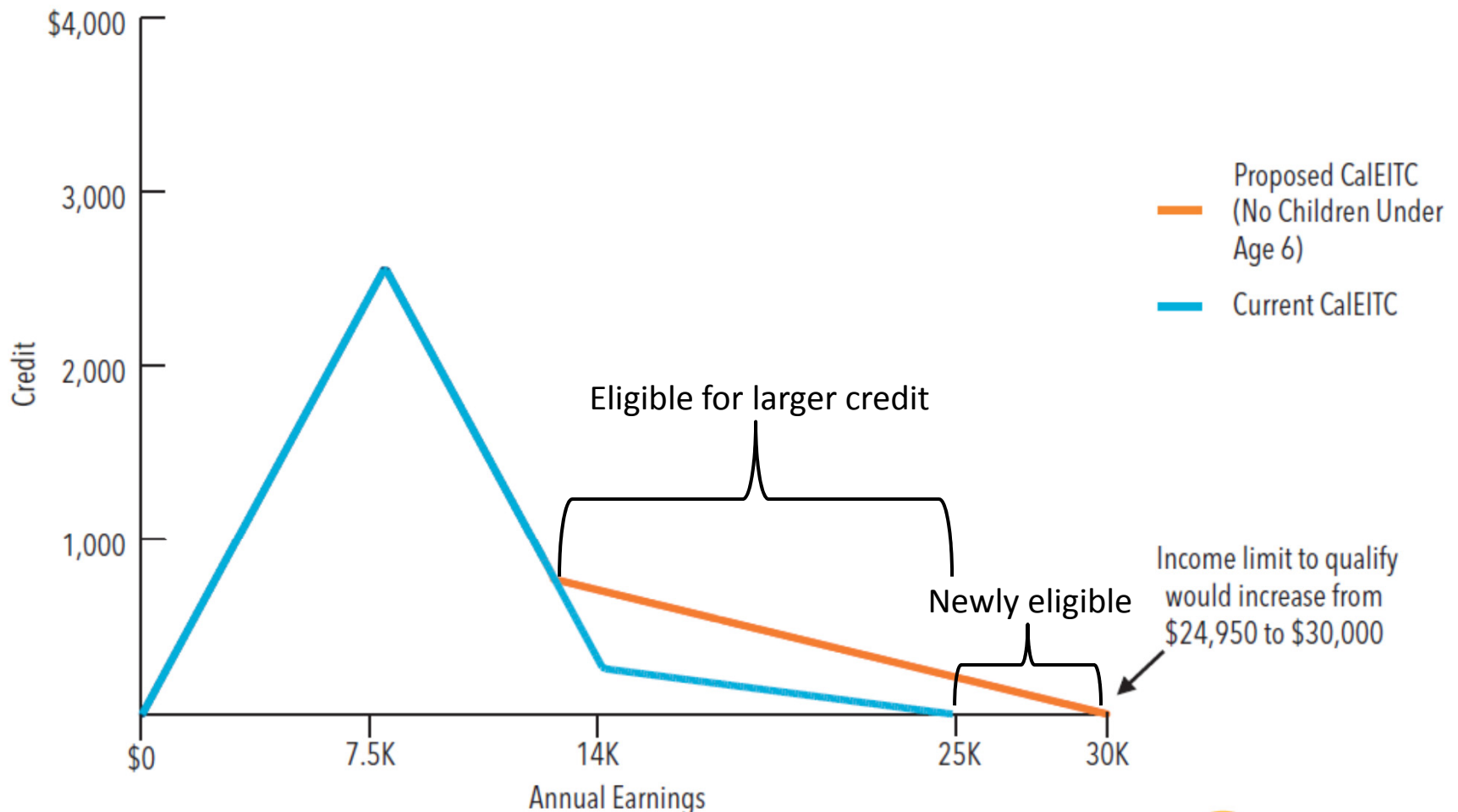
Note: Under the proposal, the income limit would also increase to \$30,000 for other families with children as well as for tax filers without any qualifying children.

Source: Budget Center analysis based on personal communication with Department of Finance



The Proposed Budget Would Increase the Size of the CalEITC and Extend the Credit to More Tax Filers

CalEITC for Parents With Two Children, Tax Year 2018



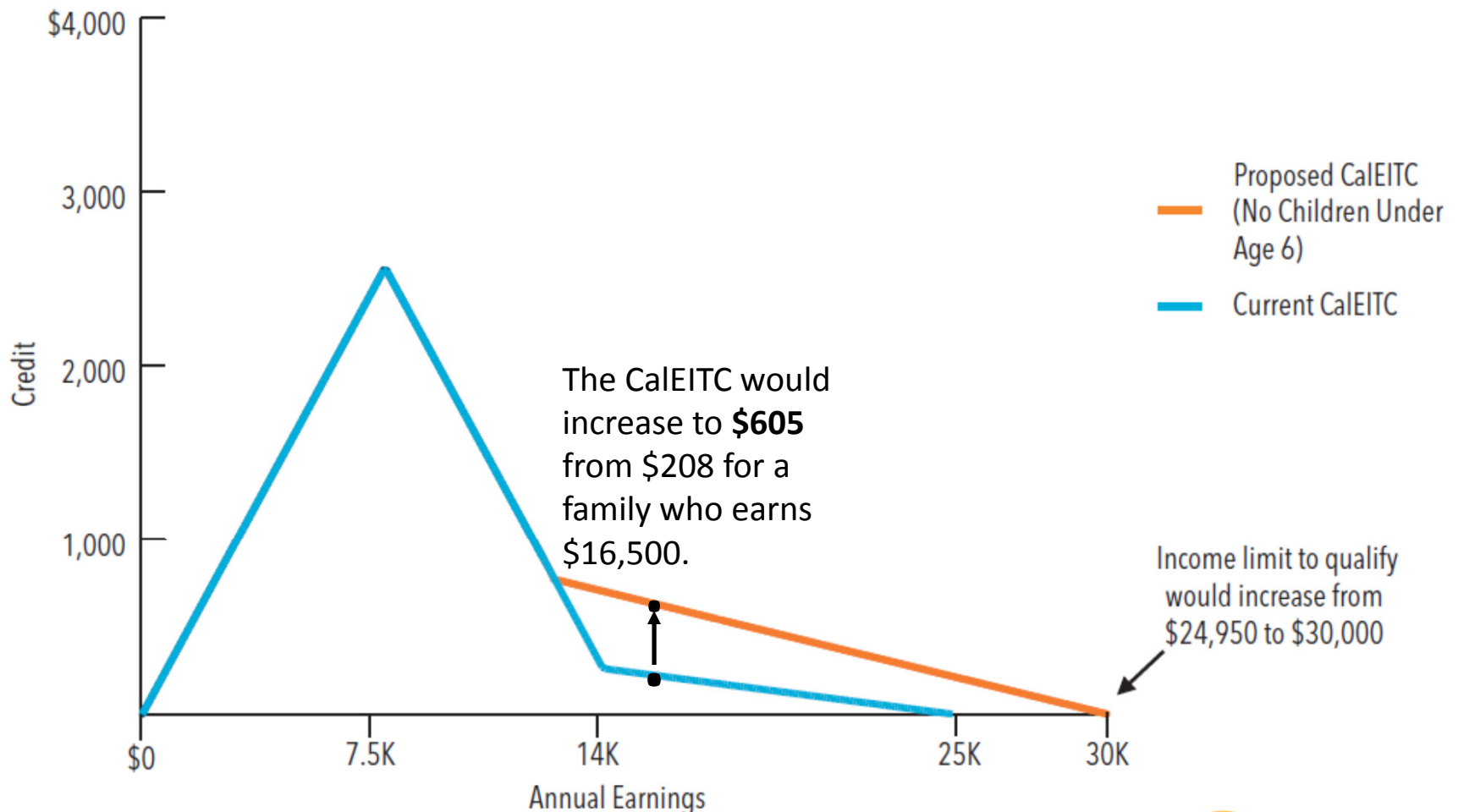
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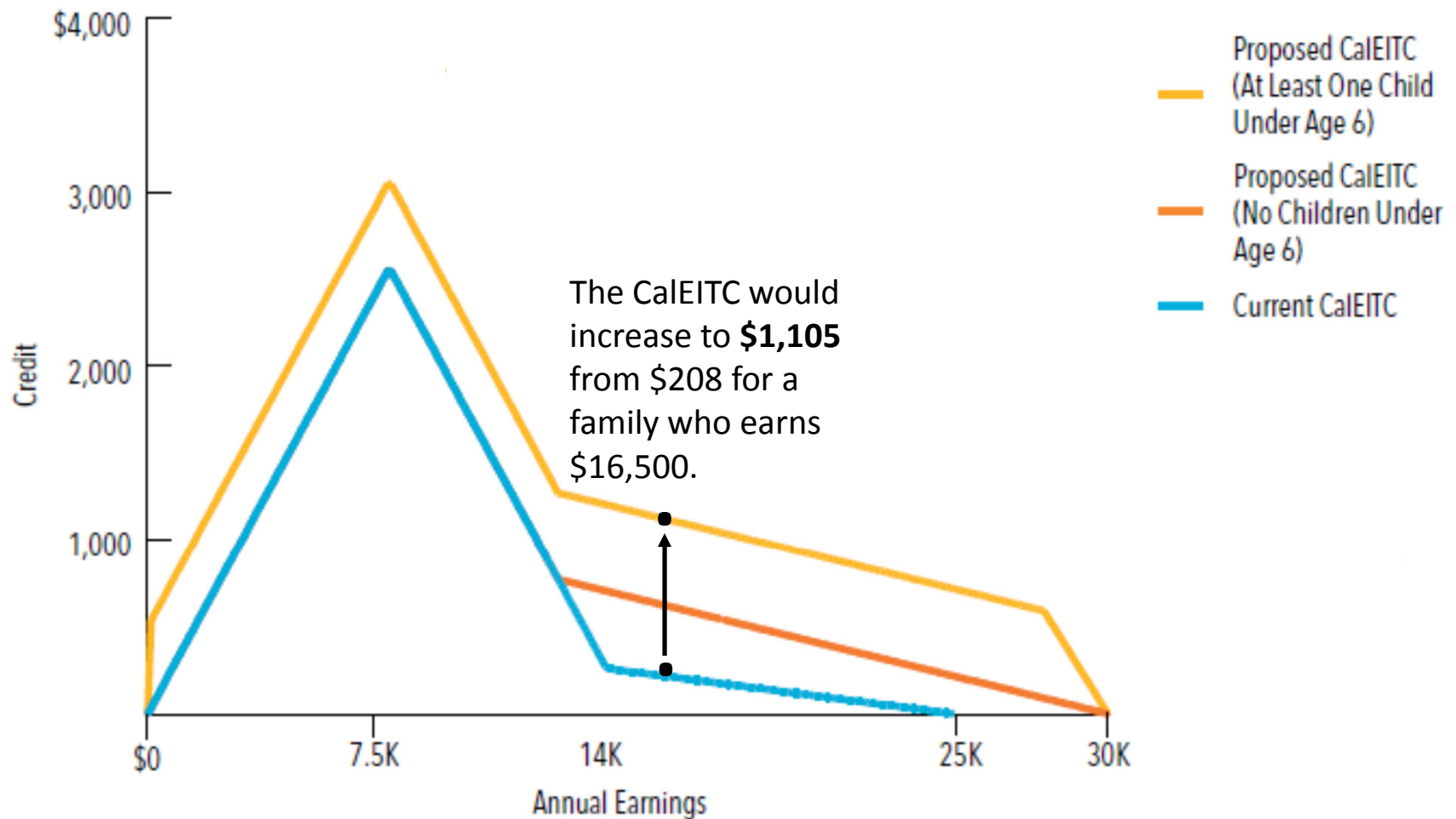
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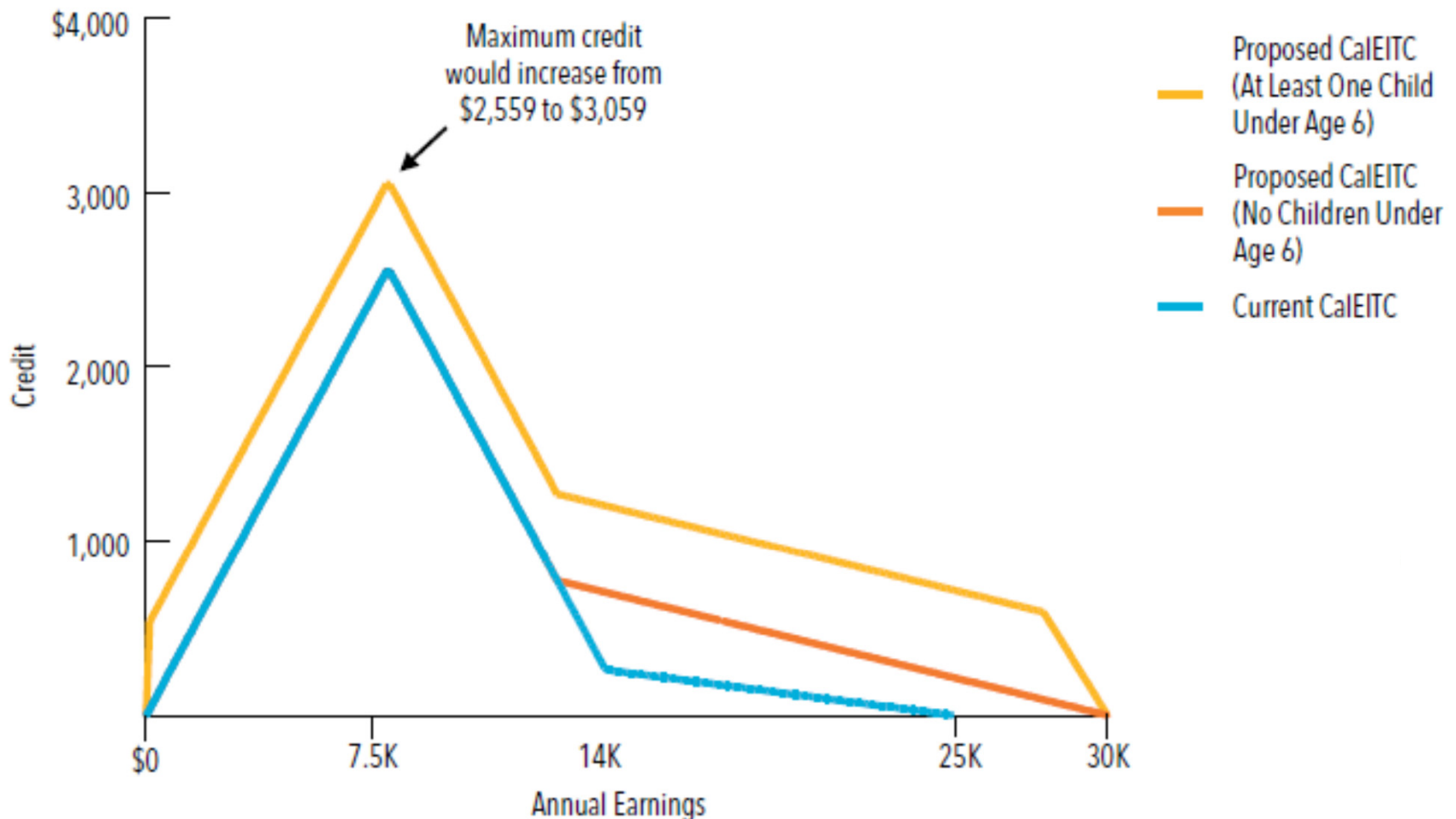
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The Proposed Budget Would Increase the Size of the CalEITC and Extend the Credit to More Tax Filers

CalEITC for Parents With Two Children, Tax Year 2018



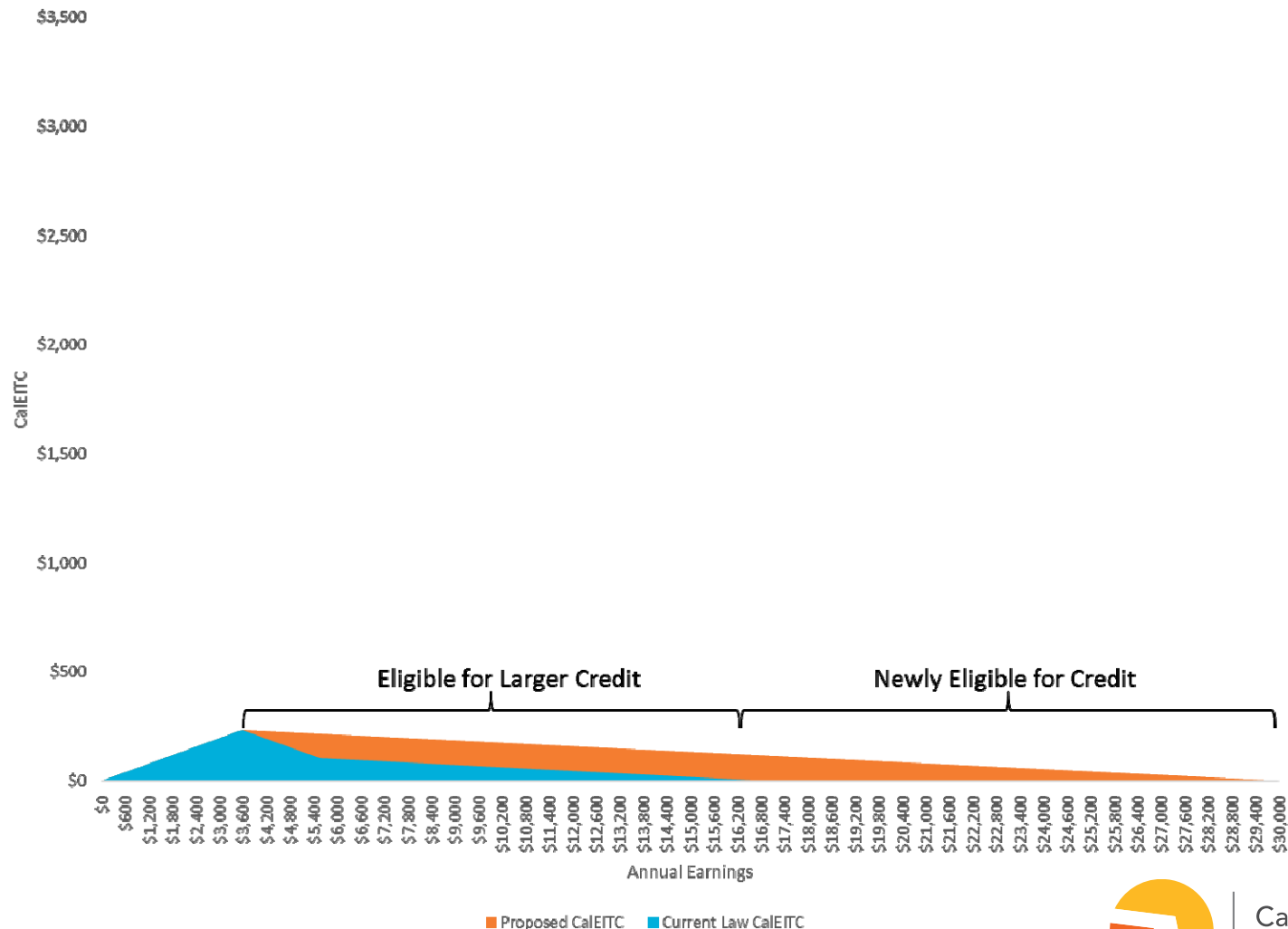
Note: Under the proposal, the income limit would also increase to \$30,000 for other families with children as well as for tax filers without any qualifying children.

Source: Budget Center analysis based on personal communication with Department of Finance



The Proposed Budget Would Increase the Size of the CalEITC and Extend the Credit to More Tax Filers

CalEITC for Workers Without Children and Non-Custodial Parents, Tax Year 2018

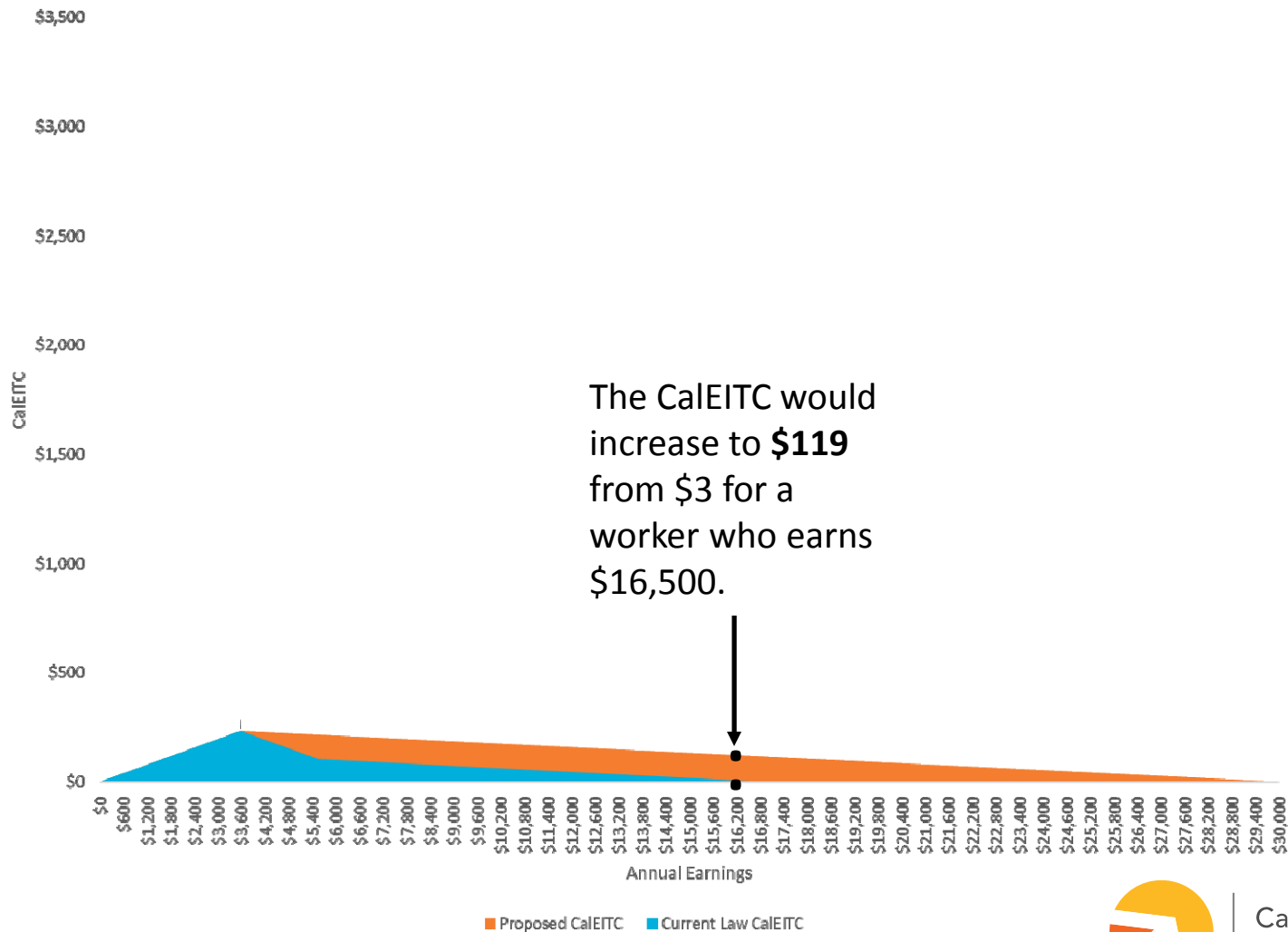


Source: Budget Center analysis based on personal communication with Department of Finance



The Proposed Budget Would Increase the Size of the CalEITC and Extend the Credit to More Tax Filers

CalEITC for Workers Without Children and Non-Custodial Parents, Tax Year 2018



Source: Budget Center analysis based on personal communication with Department of Finance



Assessment of the Governor's Proposed Expansion of the CalEITC

- **Raising the CalEITC income limits would extend the credit to additional tax filers who are struggling to make ends meet and preserve eligibility for minimum-wage workers.**



Assessment of the Governor's Proposed Expansion of the CalEITC

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- **Increasing the size of the CalEITC would provide a more meaningful credit to low-earning workers.** For example, it could cover the full-year cost of diapers for a single mom with one infant.



Assessment of the Governor's Proposed Expansion of the CalEITC

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- Increasing the size of the CalEITC would provide a more meaningful credit to low-earning workers. For example, it could cover the full-year cost of diapers for a single mom with one infant.
- **Boosting low-income families' incomes, especially when children are very young, may improve children's future outcomes.** Providing an additional credit to families with young children would essentially function like a California child tax credit for low-income working families.



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...

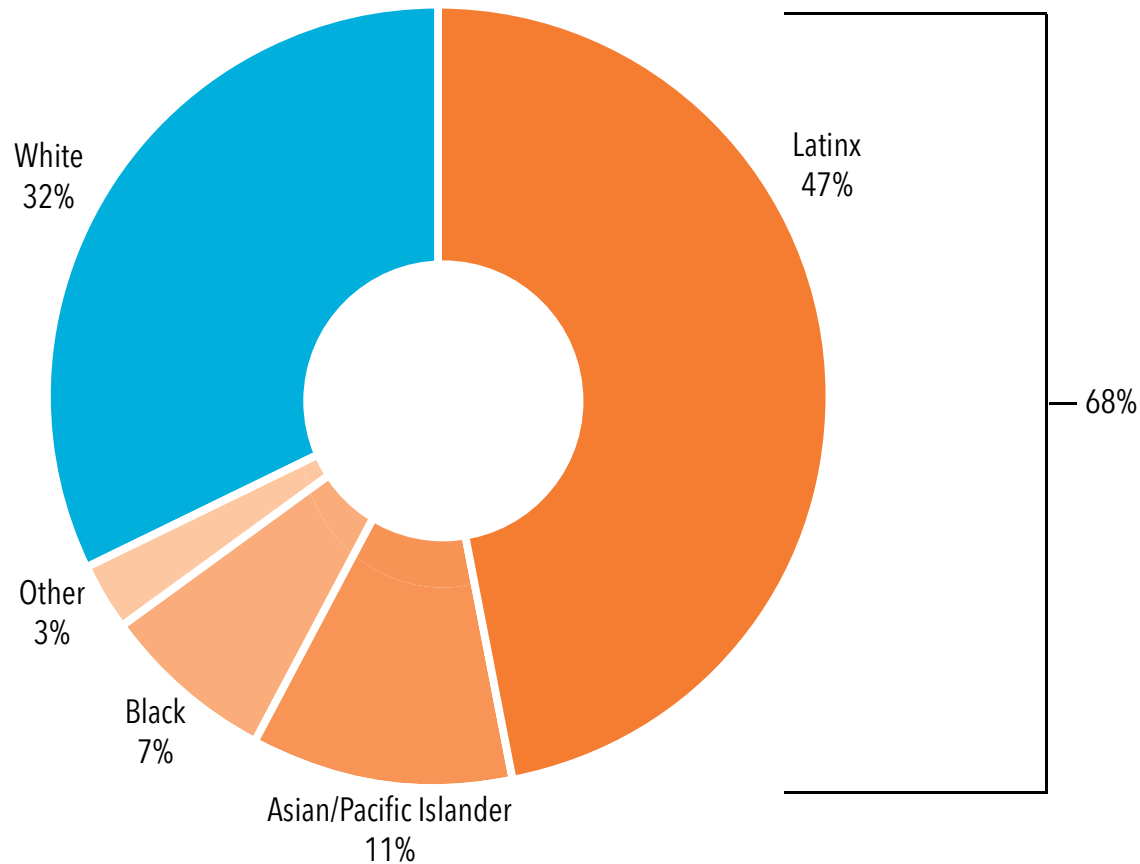
...their **annual earnings** between ages 25 and 37 **increased by 17%.**

The Governor's Proposed CalEITC Expansion Would Particularly Benefit People of Color and Women With Young Children



More Than 2 in 3 Workers Who Could Benefit From the Governor's CalEITC Proposal Are People of Color

Race/Ethnicity of Filers Eligible for New/Larger CalEITC Under Governor's Proposal

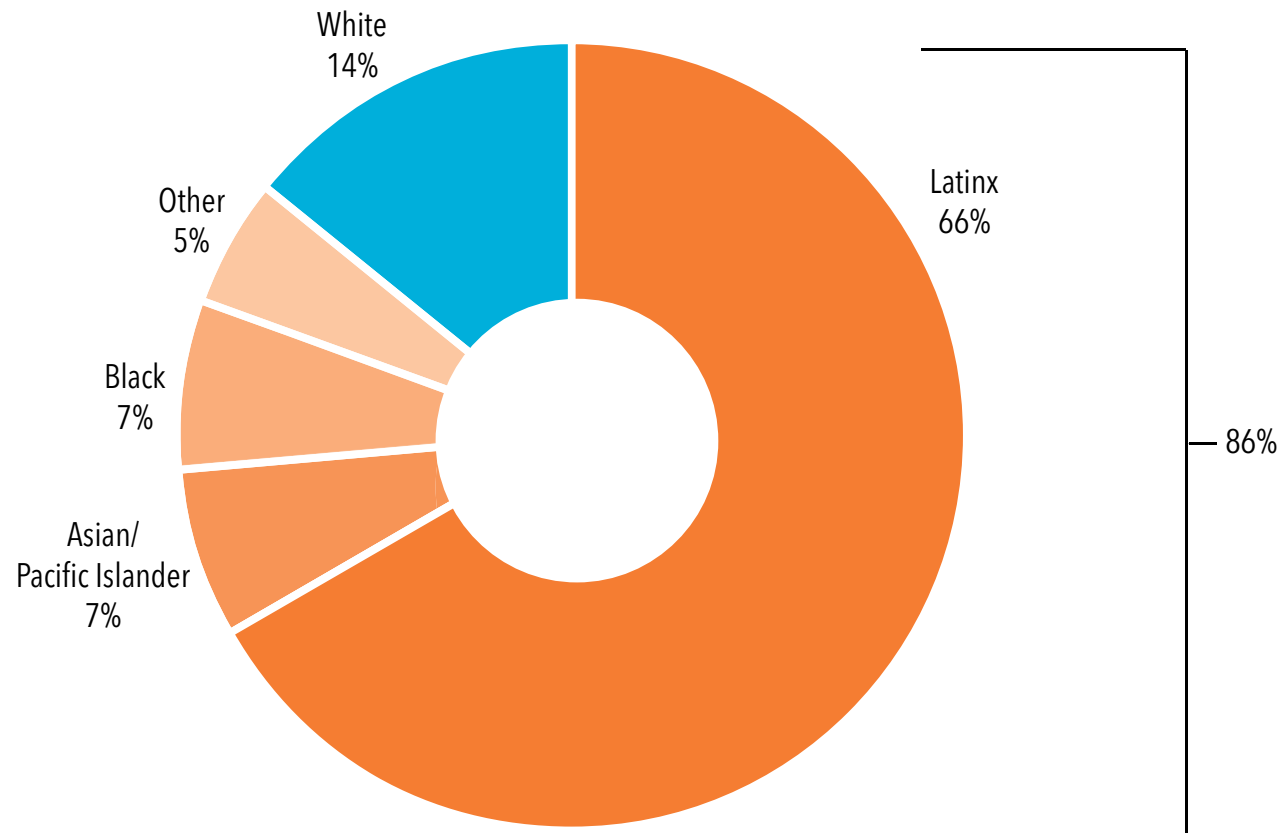


Note: Analysis uses an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California. Based on CalEITC parameters as of tax year 2018, modeled in 2016 population data, with the CalEITC expansions proposed in Governor Newsom's January 2019 budget proposal. Source: Budget Center analysis of US Census Bureau, American Community Survey data



More Than 8 in 10 Children Who Could Benefit From the Governor's CalEITC Proposal Are Children of Color

Race/Ethnicity of Children Benefiting From New/Larger CalEITC Under Governor's Proposal



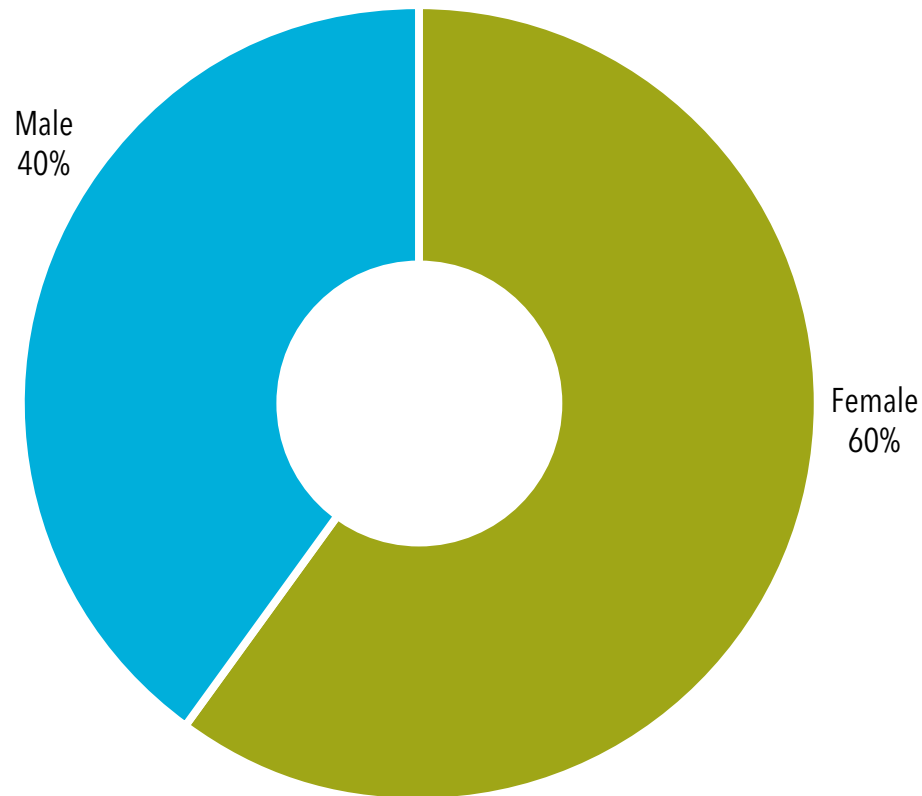
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Source: Budget Center analysis of US Census Bureau, American Community Survey data



Women Make Up 6 in 10 Filers With Children Under Age 6 Who Could Benefit From the Governor's CalEITC Proposal

Gender of Filers With Children Under Age 6 Eligible for New/Larger CalEITC Under Proposal



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 2018, modeled in 2016 population data, with the CalEITC expansions proposed in Governor Newsom's January 2019 budget proposal. Source: Budget Center analysis of US Census Bureau, American Community Survey data



Issues to Consider and Additional Ways to Build on and Strengthen the CalEITC



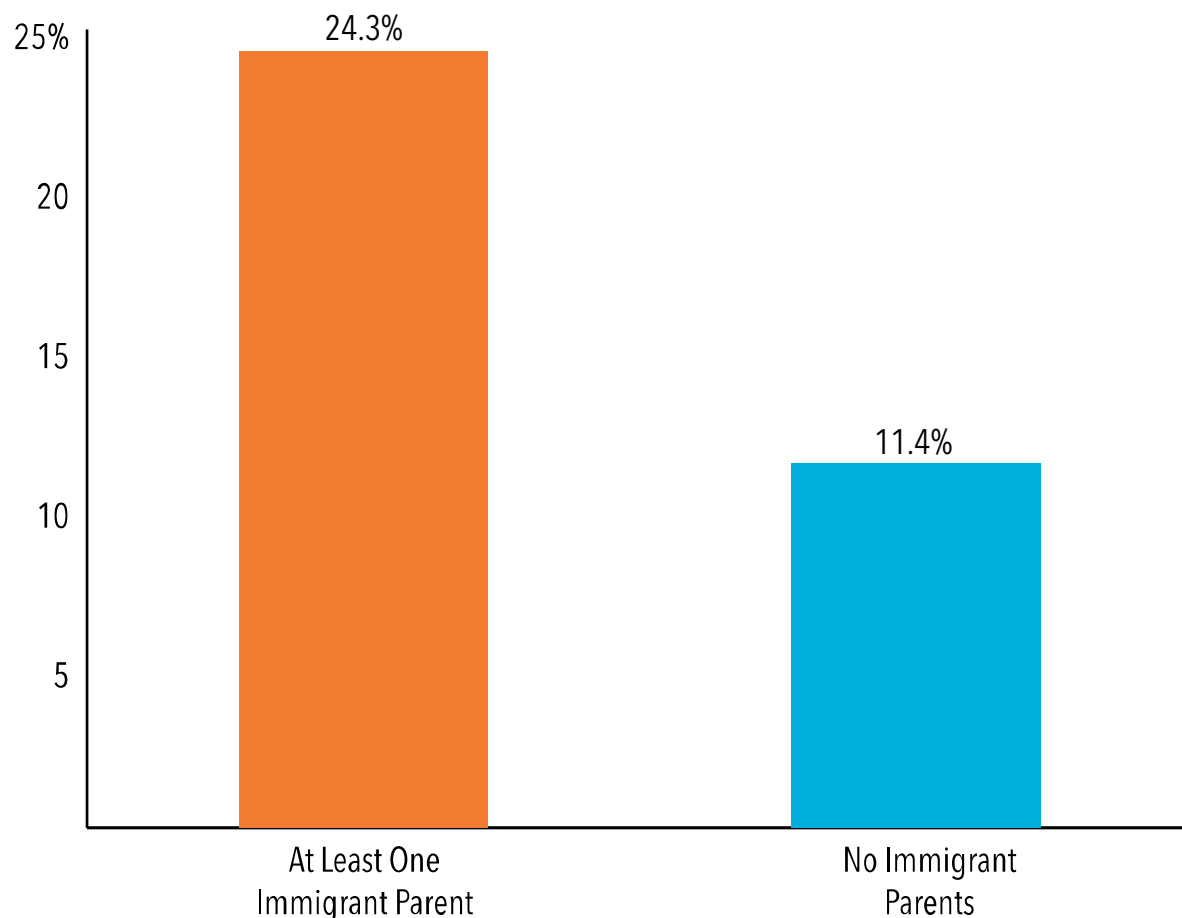
Additional Ways Policymakers Could Build on and Strengthen the CalEITC

- **Policymakers could:**
 - Ensure that all working immigrant families and individuals who file their taxes can benefit from the credit.



Among Working Families, Children of Immigrants Are Far More Likely to Live in Poverty Than Other Children

Poverty Rate Based on the Supplemental Poverty Measure, 2015-2017



Note: Working families are those with any earnings from work. Immigrant parents are those who were born outside of the US or US territories and were not born to US citizen parents.

Source: Budget Center analysis of US Census Bureau, Current Population Survey data



Additional Ways Policymakers Could Build on and Strengthen the CalEITC

- **Policymakers could:**
 - Ensure that all working immigrant families and individuals who file their taxes can benefit from the credit.
 - **Modify the credit to provide a child allowance or child tax credit for *a//* low-income families.**



The CalEITC Could Be Modified to Provide a Child Allowance or Child Tax Credit

- **Many rich nations provide a child allowance** – a monthly cash payment to families for each child in the home, regardless of whether the family has earnings from work.



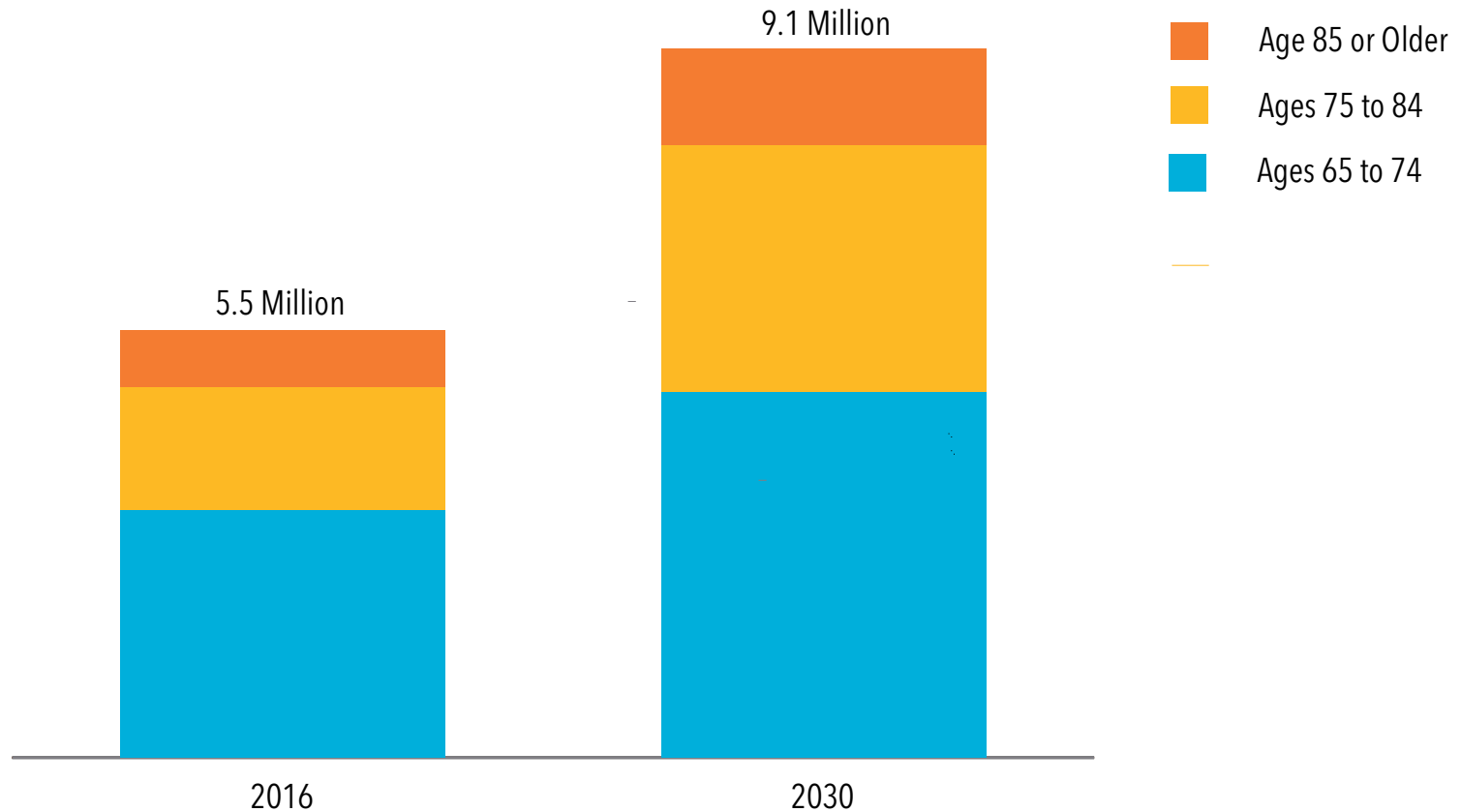
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 - Ensure that all working immigrant families and individuals who file their taxes can benefit from the credit.
 - Modify the credit to provide a child allowance or child tax credit for *a//* low-income families.
 - Recognize unpaid work by modifying the credit to provide a caregiver credit to families caring for relatives.



The Number of Older Californians Is Projected to Rise by Two-Thirds Between 2016 and 2030

Number of Californians



Note: Population is estimated for July 1, 2016 and projected for July 1, 2030.
Source: Budget Center analysis of Department of Finance data

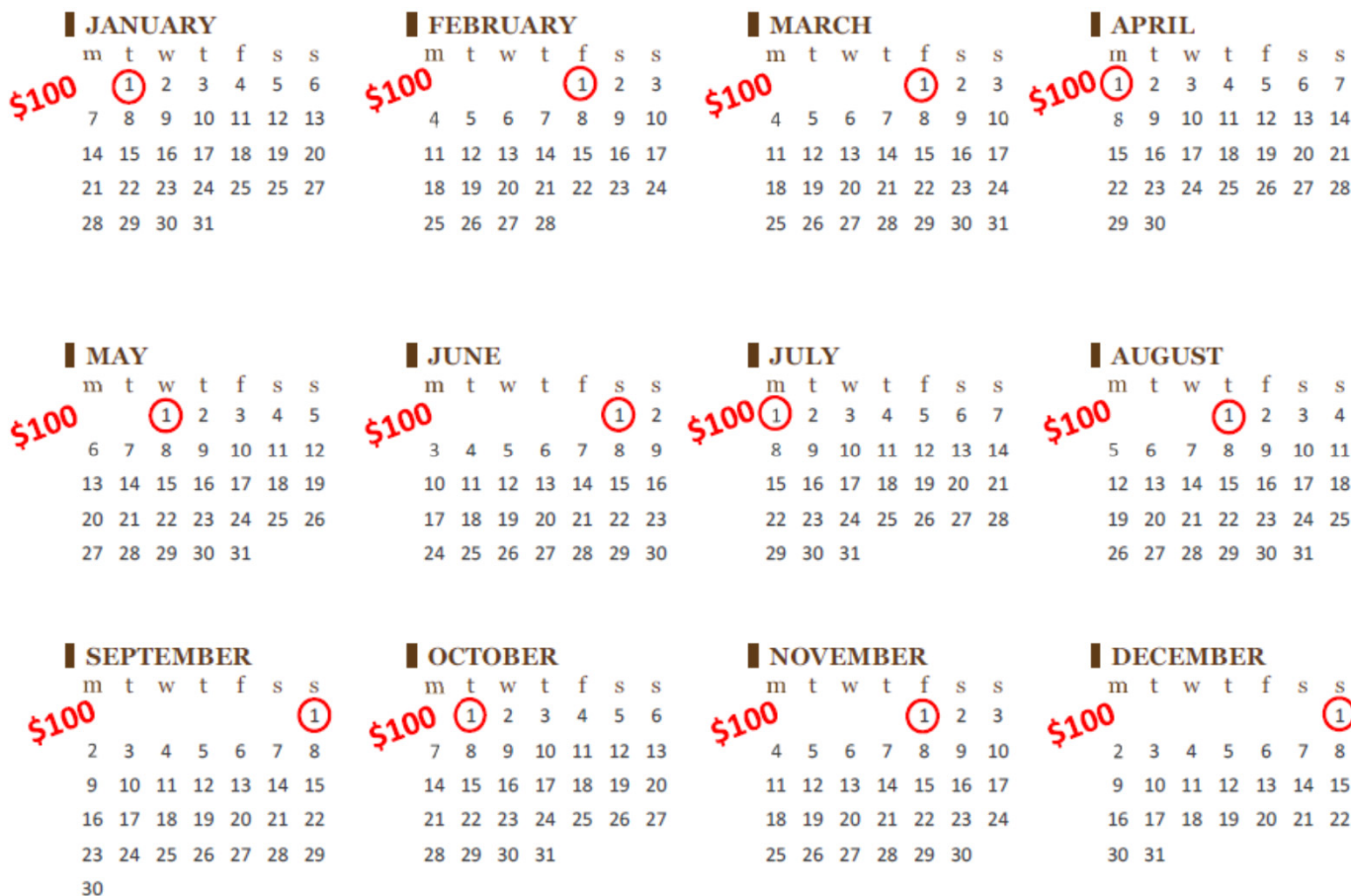


Additional Ways Policymakers Could Build on and Strengthen the CalEITC

- **Policymakers could:**
 - Ensure that all working immigrant families and individuals who file their taxes can benefit from the credit.
 - Modify the credit to provide a child allowance or child tax credit for *all* low-income families.
 - Recognize unpaid work by modifying the credit to provide a caregiver credit to families caring for relatives.
 - Allow tax filers to opt in to deferred monthly payments.



An Optional Deferred Monthly Payment of the CalEITC Presents No Financial Risk to Tax Filers



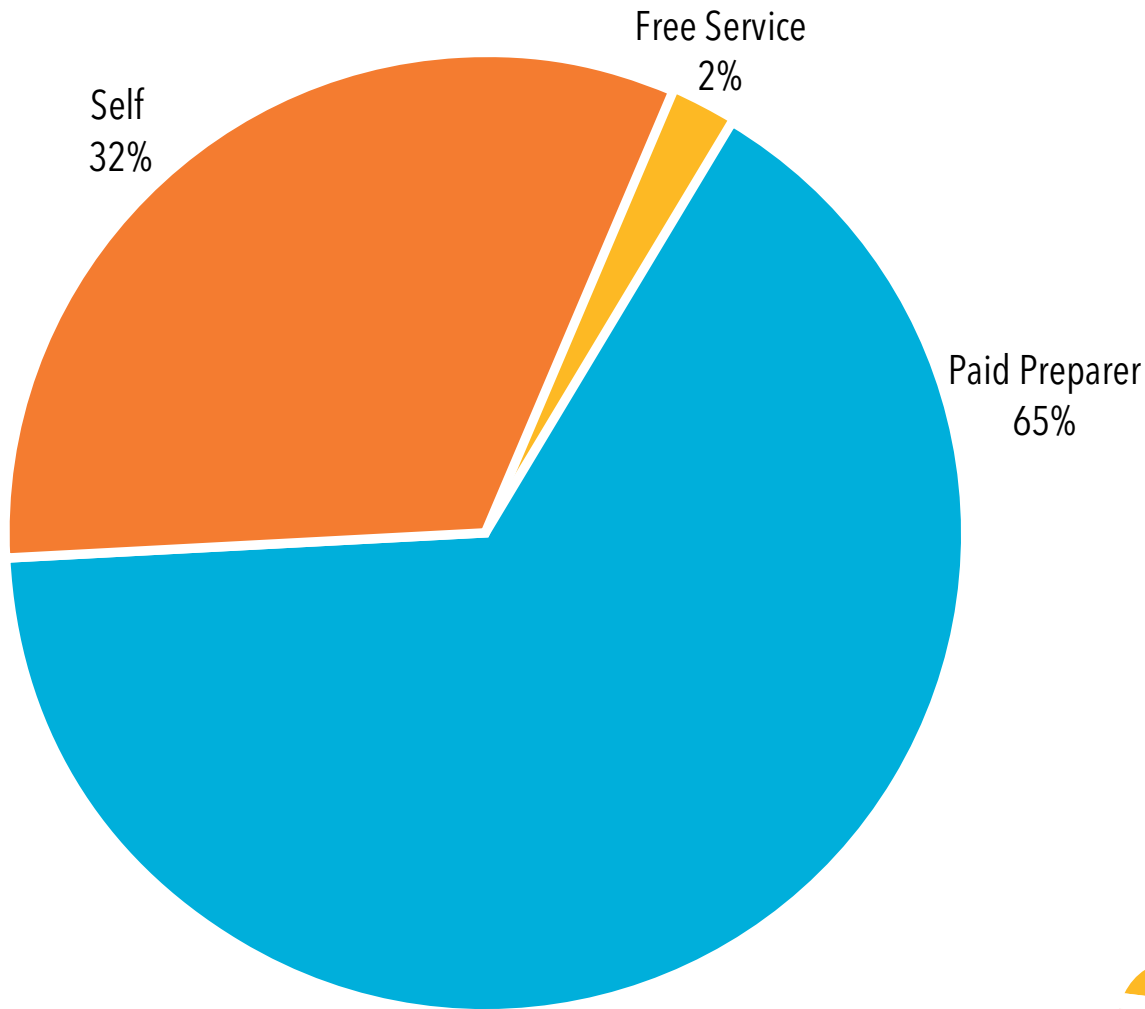
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 - Modify the credit to provide a child allowance for *a//*low-income families.
 - Recognize unpaid work by modifying the credit to provide a caregiver credit to families caring for relatives.
 - Allow tax filers to opt in to deferred monthly payments.
 - **Expand tax filers' access to free tax preparation services.**



Just 2% of California Families Who Claim the EITC Use Free Assisted Tax Prep Services Such as VITA

Share of Tax Returns That Claimed the Federal EITC in Tax Year 2014



Expanding the CalEITC Would Allow More People to Share in California's Prosperity



The Bottom Line: Expanding the CalEITC Would Allow More People to Share in California's Prosperity

- **Earned income tax credits are proven policies.** They not only increase families' economic security, they may even contribute to a better future for low-income children.
- **The Governor's proposed expansion of the CalEITC would help more low-income families make ends meet.** People of color and women with young children would especially benefit.
- **Policymakers could further strengthen the CalEITC by:**
 - Ensuring that all working immigrant families who file their taxes can benefit from the credit;
 - Modifying the credit to provide a child allowance for *a*ll low-income families and/or a caregiver credit to families caring for relatives;
 - Allowing tax filers to opt in to deferred monthly payments;
 - Expanding tax filers' access to free tax preparation services.





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Extra Slides



CalEITC Claims Increased Significantly in 2017 After the First Expansion and Will Likely Increase Modestly in 2018 Due to the Second Expansion

| Number of Qualifying Children | Number of CalEITC Claims in Each Tax Year | | | | Percent Change |
|-------------------------------|---|---------|-----------|------------------------------|----------------|
| | 2015 | 2016 | 2017 | 2018 | 2015 to 2017 |
| 0 | 169,475 | 163,755 | 689,164 | Not available until mid-2019 | 307% |
| 1 | 107,406 | 100,734 | 438,731 | | 308% |
| 2 | 77,708 | 79,107 | 233,567 | | 201% |
| 3+ | 30,957 | 32,307 | 101,751 | | 229% |
| Total | 385,546 | 375,903 | 1,463,213 | | 280% |

The Average CalEITC Declined in 2017 After the First Expansion Because Many Newly Eligible Tax Filers Qualified for Relatively Small Credits

| Number of Qualifying Children | Average CalEITC | | | | Percent Change |
|-------------------------------|-----------------|---------|-------|------------------------------|----------------|
| | 2015 | 2016 | 2017 | 2018 | 2015 to 2017 |
| 0 | \$102 | \$104 | \$70 | Not available until mid-2019 | -31% |
| 1 | \$630 | \$632 | \$271 | | -57% |
| 2 | \$1,023 | \$1,045 | \$514 | | -50% |
| 3+ | \$1,159 | \$1,174 | \$547 | | -53% |
| Total | \$520 | \$535 | \$234 | | -55% |

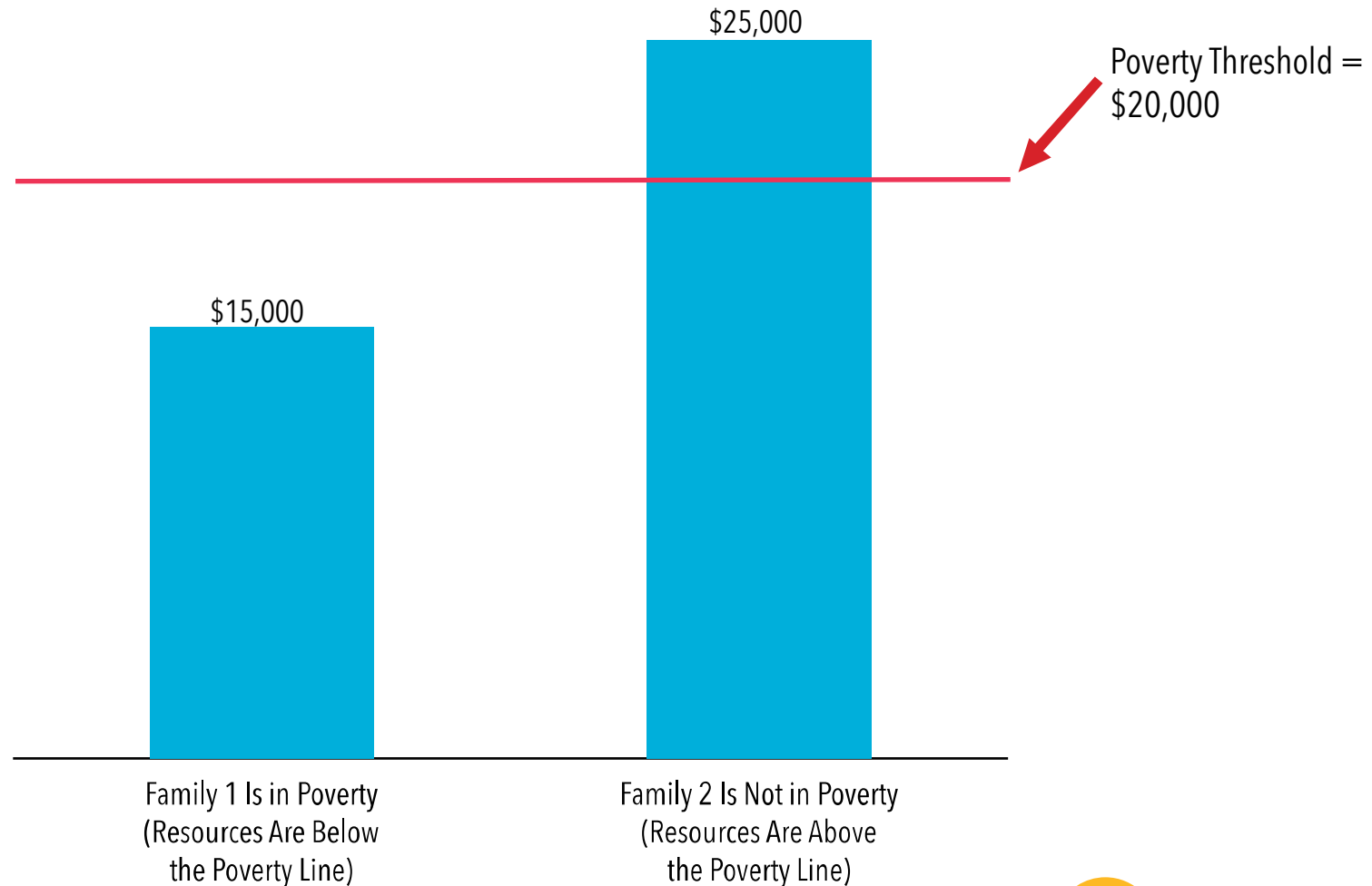
The Proposed Budget Intends to Fully Offset the Cost of the Expanded CalEITC

- **The Administration also proposes that California conform to several provisions of the federal Tax Cuts and Jobs Act (TCJA).** The intent of this proposal is to raise revenue each year to fully offset the cost of an expanded CalEITC.
 - The TCJA primarily cut taxes for the wealthy and corporations, but it included some [reasonable](#) changes that raise federal revenue and would also increase *state* revenue if California conforms to them.
 - [Conforming](#) to these parts of the TCJA would make California's tax code fairer, offset some of the inequitable aspects of the TCJA, and make significant funding available to support investments in Californians with low and moderate incomes.



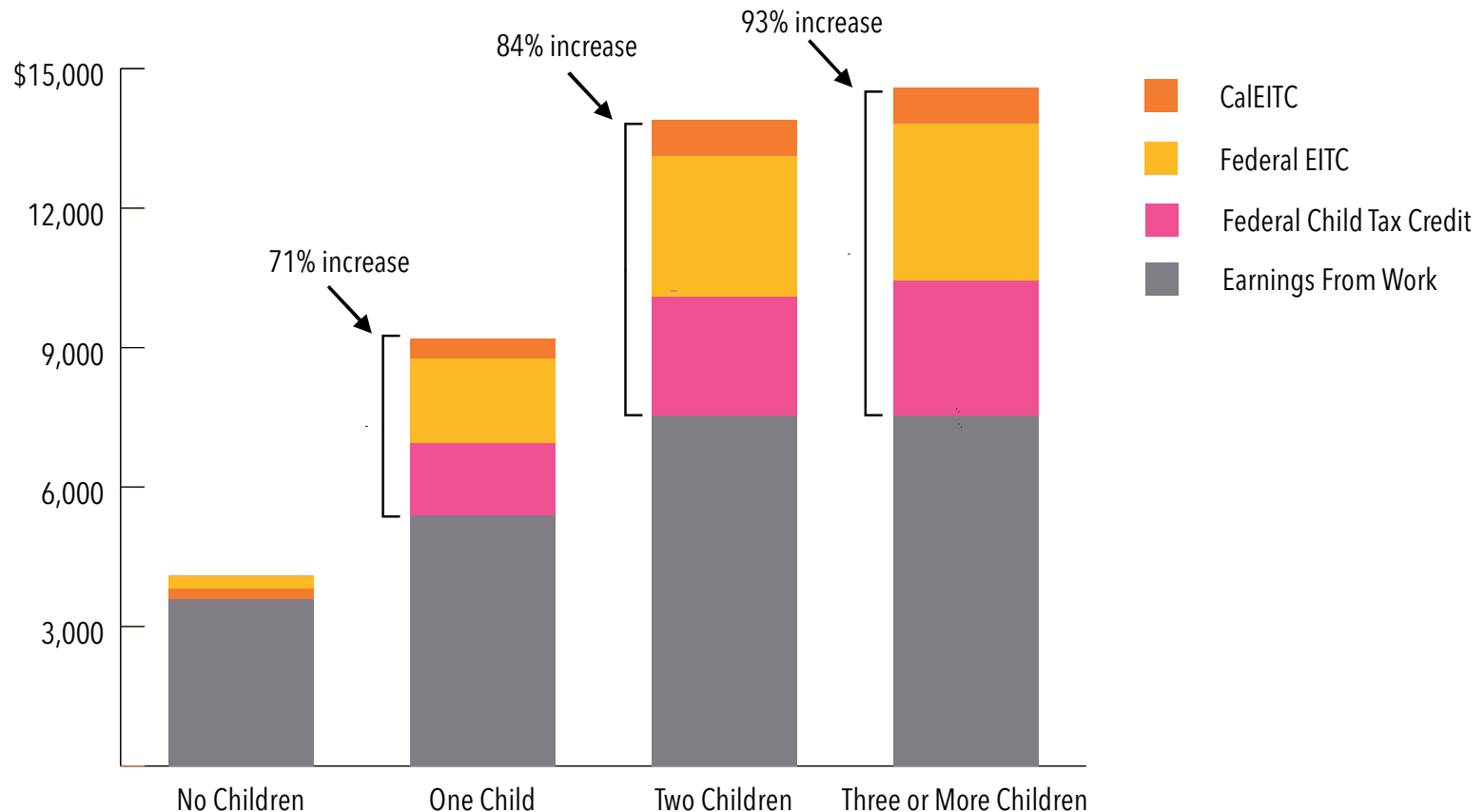
Three Major Poverty Measures Compare Family Resources to a Poverty Threshold

Annual Family Resources Compared to a Hypothetical Poverty Threshold



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, 2018



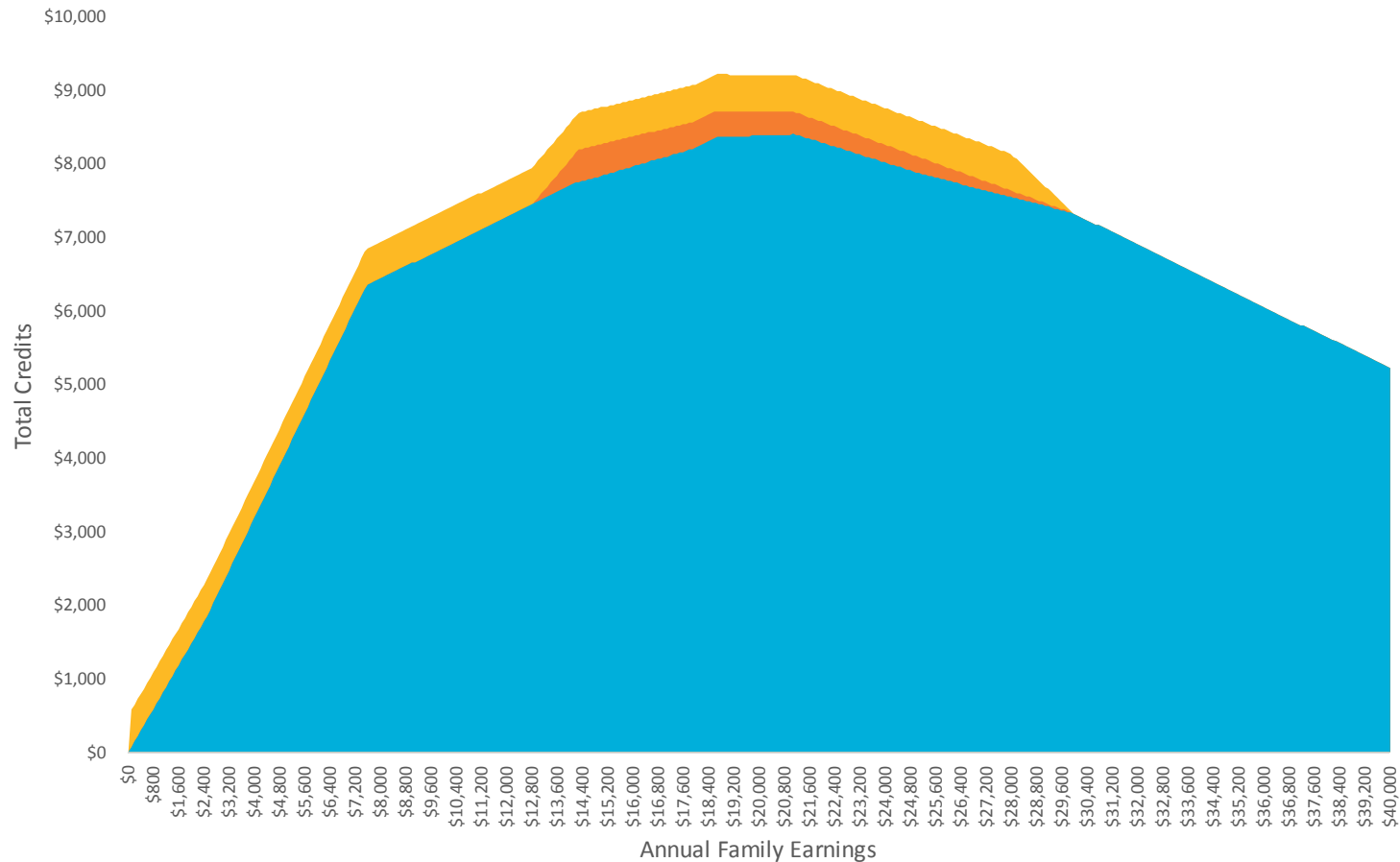
Note: These families qualify for the refundable portion of the Child Tax Credit, referred to as the Additional Child Tax Credit.

Source: Budget Center analysis of the CalEITC, federal EITC, and federal child tax credit.



CalEITC, Federal EITC, and Federal Child Tax Credits Combined, Current Law Versus the Governor's Proposal

Unmarried Parents With Two Children, Tax Year 2018



■ CalEITC, Federal EITC, & CTC, Proposed
(At Least One Child Under Age 6)

■ CalEITC, Federal EITC, & CTC, Current Law

■ CalEITC, Federal EITC, & CTC, Proposed
(No Children Under Age 6)

