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Five Reasons Why California Should Extend the CalEITC and Young Child Tax Credit to Immigrant Families and Communities

State policymakers have significantly expanded California's Earned Income Tax Credit – the CalEITC – since the credit was first enacted in 2015. However, hundreds of thousands of immigrant families are excluded from benefiting from the CalEITC as well as from California's new Young Child Tax Credit, which is tied to CalEITC eligibility.¹ In the 2019-20 budget negotiations, both the Assembly and Senate approved a proposal to extend the credits to these families to increase their economic security and allow more people to share in the economic prosperity that they help to create. Nevertheless, this proposal was left out of the final 2019-20 budget, despite the strong equity and economic cases for making the credits inclusive of immigrant families. With considerable ongoing interest in reviving this proposal next year, this analysis highlights five reasons that policymakers should include in the CalEITC and Young Child Tax Credit immigrant families who pay taxes, earn little from their jobs, and experience significant economic disparities in our communities.

1 Inclusive Tax Credits Would Benefit More Californians

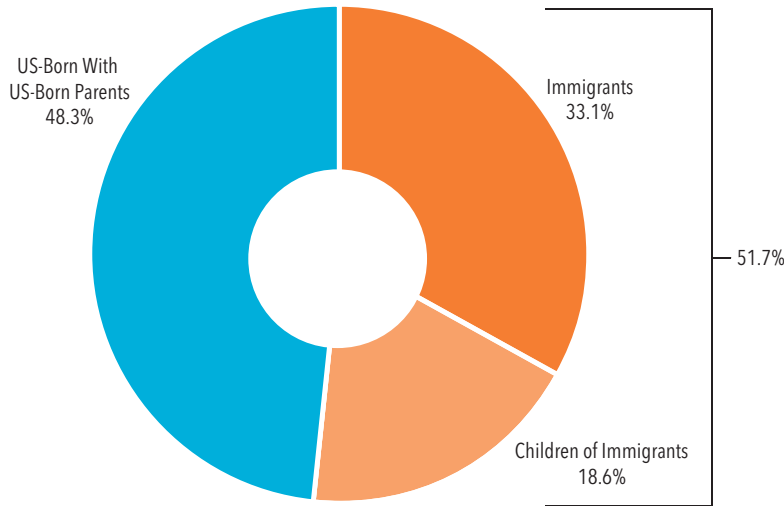
Immigrants are vital to California's workforce. More than 6 million immigrants are employed in California, representing 1 in 3 workers. In addition, US-born individuals with immigrant parents make up nearly 1 in 5 California workers. Combined, immigrants and children of immigrants make up half of California's workers.

Most immigrant workers file income taxes using Social Security Numbers (SSN). Those who do not have SSNs can file using federally issued Individual Taxpayer Identification Numbers (ITINs) instead of SSNs. (Anyone who does not have a SSN can apply to the Internal Revenue Service for an ITIN, which is used specifically for the purpose of filing income taxes.) However, tax filers using ITINs are excluded from the CalEITC and Young Child Tax Credit because these credits currently follow the rule for the *federal* EITC, which requires tax filers and their children to use SSNs that are valid for work in order to claim the EITC.

Extending the CalEITC and Young Child Tax Credit to Californians who file their taxes with ITINs would improve economic security for people who are engaged in important, but low-paid – and often unstable – work.² These include farm workers, cooks, housekeeping cleaners, construction laborers, grounds maintenance workers, and janitors.³ Extending the CalEITC and Young Child Tax Credit to these Californians would also be an investment in their children, who are learning in California's K-12 classrooms and on the state's higher education campuses, and will be part of the future workforce California needs to maintain a strong economy.

Half of All California Workers Are Immigrants or Children of Immigrants

Immigrant Status of Employed Individuals in California, 2016-2018



Note: Categories are mutually exclusive. Data include employed civilians age 15 or older.
Source: Budget Center analysis of US Census Bureau, Current Population Survey data

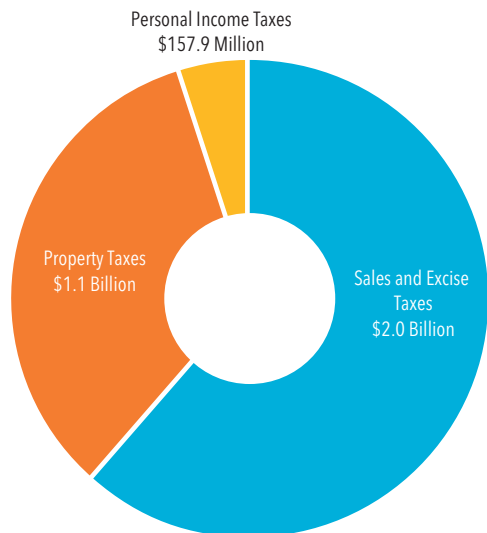
2 Inclusive Tax Credits Would Recognize That Immigrants Are Tax Filers

Immigrants – regardless of status – contribute billions of dollars in state and local revenues by paying taxes and are a vital part of California’s economy and social fabric. It is estimated that undocumented immigrants alone contribute *over \$3 billion annually* to California’s state and local tax system, including by paying personal income taxes using ITINs. Although people with ITINs file taxes, they are unable to access the CalEITC and Young Child Tax Credit.

The exclusion of Californians who file taxes with ITINs from the CalEITC and Young Child Tax Credit is the exception to the norm. People with ITINs are eligible for other tax benefits, including California’s renter’s tax credit, the state’s dependent exemption credit, and both the state and federal child and dependent care expenses credit. Allowing these tax filers to benefit from the CalEITC and Young Child Tax Credit would bring these credits into alignment with other tax benefits.

California's Undocumented Immigrants Make Significant Contributions to State and Local Revenues

Estimated Annual State and Local Taxes Paid by Undocumented Immigrants = \$3.2 Billion



Source: Institute on Taxation and Economic Policy

3 Inclusive Tax Credits Could Help Increase Economic Stability for Children Growing Up in Poverty

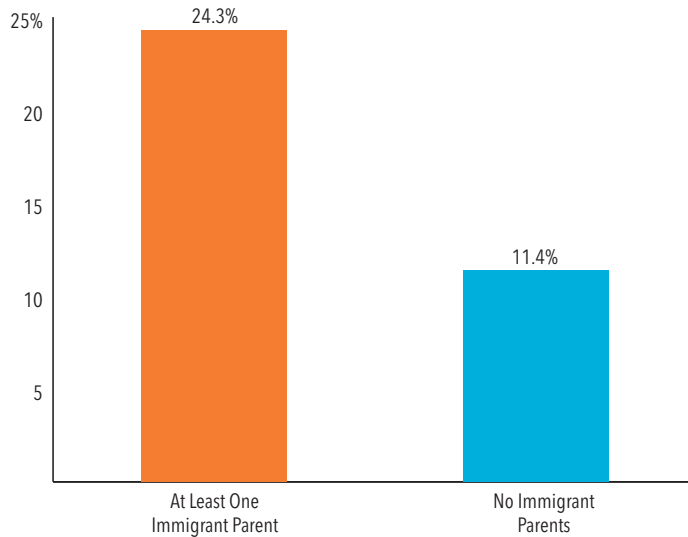
Among working families, children of immigrants are more than twice as likely to live in poverty as other children in working families. This reflects the fact that many immigrants are engaged in low-paid and often unstable work, and are far more likely to be victims of exploitation, such as wage theft.⁴ In addition, the legacy of anti-immigration policies together with the “chilling effect” of current anti-immigrant proposals undermine immigrants’ ability to achieve economic security.⁵

Economic instability can have lasting, harmful effects on children. The longer children spend in poverty, the *less* likely they are to complete high school, attend college, and be consistently employed in early adulthood, and the *more* likely they are to live in poverty as adults.⁶ In addition, poverty is linked to adverse health outcomes for infants and children.⁷ Tax credit exclusions mean that many children of immigrants have considerably lower after-tax incomes than other children, putting them at greater risk of suffering these long-term consequences.

Refundable income tax credits are key public investments that not only reduce economic insecurity, but also help children succeed over the long term.⁸ The federal EITC and state EITCs, for example, are linked to improved health for infants and children as well as to greater school achievement and educational attainment.⁹ Extending the CalEITC and Young Child Tax Credit to excluded immigrant families is a way to help build economic stability among children in poverty, as well as invest in the children who will be among California’s future workforce.

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



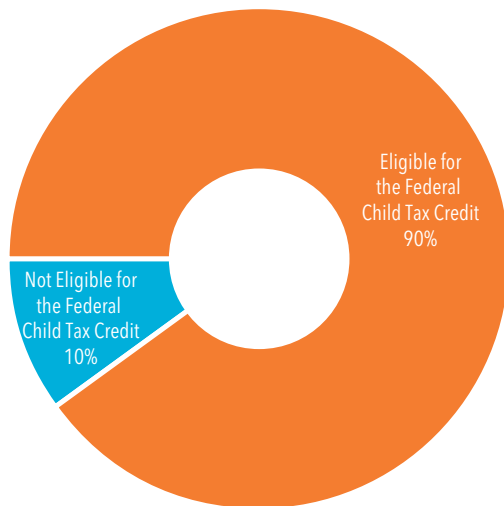
Note: Working families are those with any earnings from work. Immigrant parents are those who were born outside of the US and US territories and were not born to US citizen parents.
Source: Budget Center analysis of US Census Bureau, Current Population Survey data

4 California's Young Child Tax Credit Excludes More Immigrant Families Than the Federal Child Tax Credit

California is home to more than 10 million immigrants, who represent more than one-quarter (27%) of the state's population – a larger percentage than any other state.¹⁰ Yet, California's Young Child Tax Credit excludes more immigrant families than the federal Child Tax Credit (CTC). Parents with ITINs can currently claim the federal CTC for any child who has a SSN that is valid for work. In contrast, the Young Child Tax Credit is not available to any children whose parents have ITINs, even if the children are US-born citizens with SSNs. This makes California's credit more restrictive than the federal credit. In fact, an estimated 90% of the children under age 6 who are excluded from California's Young Child Tax Credit are eligible for the federal CTC. This is notable given that the federal Tax Cuts and Jobs Act (TCJA), signed into law in 2017, excluded 1 million US children in immigrant families from the federal CTC (specifically, those with ITINs).¹¹ Prior to the TCJA, parents could claim the credit for children with ITINs.

Most Children Excluded From California's Young Child Tax Credit Are Eligible for the Federal Child Tax Credit

Percentage of Children Under Age Six Excluded From California's Young Child Tax Credit (YCTC)



Note: Federal Child Tax Credit includes the partially refundable "Additional Child Tax Credit." Estimates are for children who are excluded from the YCTC in tax year 2019 because they or their parents do not have Social Security Numbers valid for work.
Source: Budget Center analysis of US Census Bureau, American Community Survey data

5 Children Whose Parents Have the Same Earnings Experience Huge Disparities in After-Tax Income Due to Tax Credit Exclusions

State policymakers' choice to exclude Californians who file their taxes using ITINs from the CalEITC and Young Child Tax Credit prevents many immigrant families from accessing the benefits of tax credits that are proven tools for cutting poverty and helping people afford basic needs.¹² These exclusions cause huge disparities in after-tax income for children whose parents have *exactly the same earnings*.

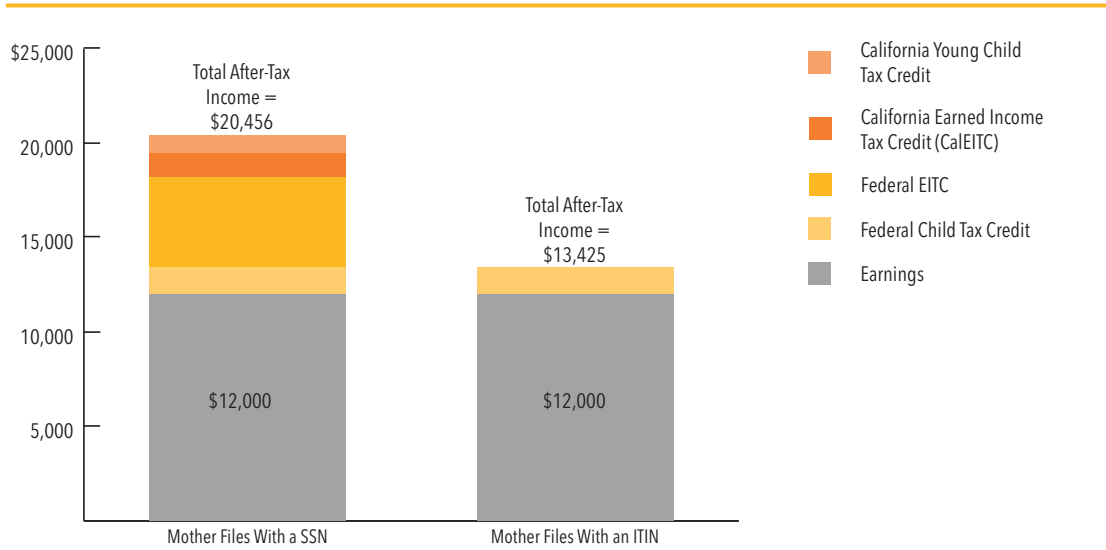
This can be seen when looking at an example of two US citizen children whose mother works part-time at the minimum wage and makes \$12,000 in 2019. If the mother files her taxes with a SSN that is valid for work, the family's after-tax income would be over \$20,000, which is right around the official federal poverty line.¹³ This is because the family would qualify for California's Young Child Tax Credit, the CalEITC, the federal EITC, and the federal Child Tax Credit (CTC). Together, those four tax credits would boost the family's earnings *by 70%*.

In contrast, if the mother files her taxes with an ITIN, the family's after-tax income would be just over \$13,000 – \$7,000 lower than if the mother filed with a SSN and about 35% *below* the official federal poverty line. The family's income would be considerably lower because the family would *not* qualify for California's Young Child Tax Credit, the CalEITC, or the federal EITC. (The family would qualify for the federal CTC because the children, as US citizens, would have SSNs that are valid for work.)

The exclusion of Californians who file taxes with ITINs from these credits means that similarly situated families are treated differently by the tax code, with significant consequences for families’ ability to achieve economic security and meet the basic needs of their children. These types of exclusionary policies help to explain why among working families, children of immigrants are far more likely to live in poverty than other children, as noted earlier in this analysis.

Tax Credit Exclusions Cause Huge Disparities in After-Tax Income for Children Whose Parents Have the Same Earnings

Two Children Whose Mother Works Part-Time at the State Minimum Wage in 2019



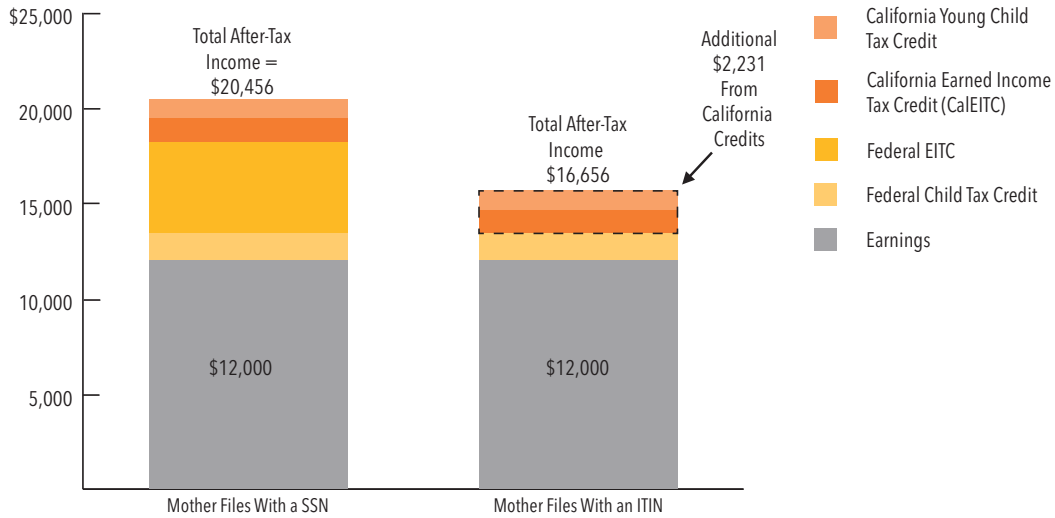
Note: SSN=Social Security Number valid for work. ITIN=Individual Taxpayer Identification Number. Analysis assumes both children have SSNs. These families do not owe state or federal income tax. Source: Budget Center analysis of Section 17052 of the California Revenue and Taxation Code and Section 32 of Title 26 of the Internal Revenue Code

Making California’s refundable tax credits more inclusive of immigrants would reduce after-tax income gaps for children whose parents have exactly the same earnings and improve economic security among children of immigrants. In the previously discussed example, if tax filers using ITINs were eligible for the CalEITC and California’s Young Child Tax Credit, the family’s after-tax income would increase by \$2,231 to \$16,656. Although the family would still have a lower income than if the mother had filed with a SSN because they would remain excluded from federal EITC, they would be better able to afford their basic needs with access to California’s credits.

This analysis compares families with children who are US citizens because the vast majority of children who are excluded from the CalEITC and Young Child Tax Credit are US-born citizens – they are excluded because of their *parents’* lack of a SSN that is valid for work. Specifically, more than 80% of children under age 18 who are excluded from the CalEITC and more than 90% of children under age 6 who are excluded from the Young Child Tax Credit are US citizens.¹⁴

Inclusive California Credits Would Reduce Gaps in After-Tax Income for Children Whose Parents Have the Same Earnings

Two Children Whose Mother Works Part-Time at the State Minimum Wage in 2019



Notes: SSN=Social Security Number valid for work. ITIN=Individual Taxpayer Identification Number. Analysis assumes both children have SSNs. These families do not owe state or federal income tax. 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

Conclusion

The CalEITC and Young Child Tax Credit exclude hundreds of thousands of immigrant families because California policymakers chose to follow federal EITC eligibility rules that require tax filers and their children to have SSNs that are valid for work in order to claim the credit. State lawmakers can easily change the requirements for the CalEITC and Young Child Tax Credit to achieve California-specific priorities, such as to include all Californians who file their taxes and earn little from their jobs. Such a move would build off precedent for diverging from federal EITC eligibility rules, as California chose in 2018 to extend the CalEITC to young adults and seniors who were initially excluded from the CalEITC because they are ineligible for the federal EITC.¹⁵

Making the CalEITC and Young Child Tax Credit more inclusive of immigrant families would be a smart investment for California to make both from an equity perspective – given the valuable, but often under-valued, contributions immigrants make to our society – and from an economic perspective – given that the strength of our collective future depends on the investments we make in *all* of our state’s children today.

Alissa Anderson prepared this *5 Facts*. The Budget Center was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The Budget Center engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the Budget Center is provided by foundation grants, subscriptions, and individual contributions. Please visit the Budget Center’s website at calbudgetcenter.org.

ENDNOTES

- 1 The estimate of the number of excluded immigrant families is based on simulation of income taxes in public-use microdata for California from the US Census Bureau, American Community Survey (ACS), downloaded from IPUMS USA (www.ipums.org), using a 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. To learn how the CalEITC and YCTC work, see Alissa Anderson, *The CalEITC and Young Child Tax Credit: Smart Investments to Broaden Economic Security for Californians* (California Budget & Policy Center: October 30, 2019).
- 2 Alissa Anderson, *Expanding the CalEITC Is an Effective Way to Invest in California’s Children, but Hundreds of Thousands of Children of Immigrants Won’t Benefit Unless Policymakers Act* (California Budget & Policy Center: May 14, 2019).
- 3 Budget Center analysis of US Census Bureau, American Community Survey data. See endnote 1 for more information.
- 4 See, for example, Ruth Milkman, et al., *Wage Theft and Workplace Violations in Los Angeles: The Failure of Employment and Labor Law for Low-Wage Workers* (Institute for Research on Labor and Employment, University of California, Los Angeles: 2010).
- 5 See, for example, Audrey Singer, *Welfare Reform and Immigrants* (The Brookings Institution: May 1, 2004) and Sara Kimberlin and Adriana Ramos-Yamamoto, *The Trump Administration’s New “Public Charge” Immigration Rule Will Push Thousands of Californians Into Poverty and Hurt the State’s Health and Economy* (California Budget & Policy Center: August 2019).
- 6 Caroline Ratcliffe, *Child Poverty and Adult Success* (Urban Institute: September 2015) and Robert Lee Wagmiller and Robert M. Adelman, *Childhood Intergenerational Poverty: The Long-Term Consequences of Growing Up Poor* (National Center for Children in Poverty: November 2009).
- 7 See Centers for Disease Control and Prevention, *Earned Income Tax Credits*, downloaded from <https://www.cdc.gov/policy/hst/hi5/taxcredits/index.html> on October 28, 2019.
- 8 See Alissa Anderson, *The CalEITC and Young Child Tax Credit: Smart Investments to Broaden Economic Security for Californians* (California Budget & Policy Center: October 30, 2019).
- 9 See Alissa Anderson and Sara Kimberlin, *Expanding the CalEITC: A Smart Investment to Broaden Economic Security for Californians* (California Budget & Policy Center: March 11, 2019, pp. 33-35).
- 10 Sara Kimberlin, *Half of All California Workers Are Immigrants or Children of Immigrants* (California Budget & Policy Center: April 2019).
- 11 Center on Budget and Policy Priorities, *2017 Tax Law’s Child Credit: A Token or Less-Than-Full Increase for 26 Million Kids in Working Families* (August 27, 2018).
- 12 For a review of some of the research, see Alissa Anderson, *The CalEITC and Young Child Tax Credit: Smart Investments to Broaden Economic Security for Californians* (California Budget & Policy Center: October 30, 2019).
- 13 The 2019 official federal poverty line was estimated by adjusting the 2018 poverty line for a parent with two children for inflation using the change in CPI-U between the first nine months of 2018 and the first nine months of 2019. (At the time of publication, CPI-U figures were only available for the first nine months of 2019.)
- 14 The Young Child Tax Credit is only available to CalEITC-eligible families with at least one qualifying child under age 6.
- 15 When the CalEITC was first established in 2015, it adopted the federal EITC rule that tax filers without qualifying dependents had to be between the ages of 25 and 64 in order to claim the credit. Three years later, California policymakers changed this rule so that tax filers without qualifying dependents can claim the CalEITC as long as they are age 18 or older.