



California Budget
& Policy Center

Strengthening the Safety Net: The Role of the CalEITC

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REIMAGINING THE GOLDEN STATE CONFERENCE
UC BERKELEY INSTITUTE FOR THE FUTURE OF
YOUNG AMERICANS
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Key Themes

- Wage stagnation is a serious economic challenge that significantly affects young adults
- The CalEITC, as a state earned income tax credit, represents a feasible and effective policy approach to increase workers' incomes, reducing the impact of wage stagnation



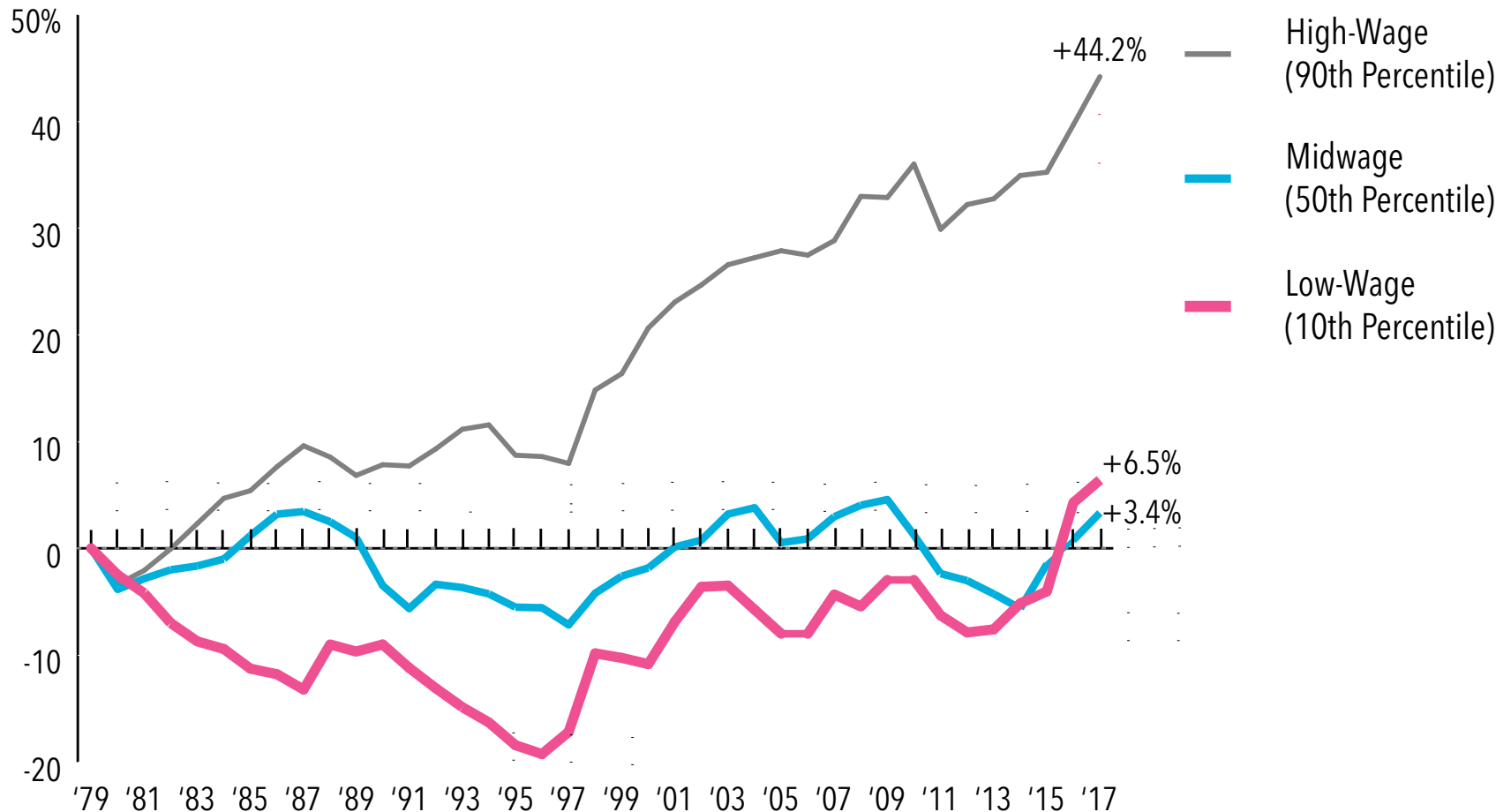
The Challenge of Wage Stagnation

When wages don't grow, workers struggle to make ends meet.



California's Low- and Midwage Workers Have Seen Only Modest Gains Since 1979

Percent Change in Inflation-Adjusted Hourly Wages for Workers Ages 18-64



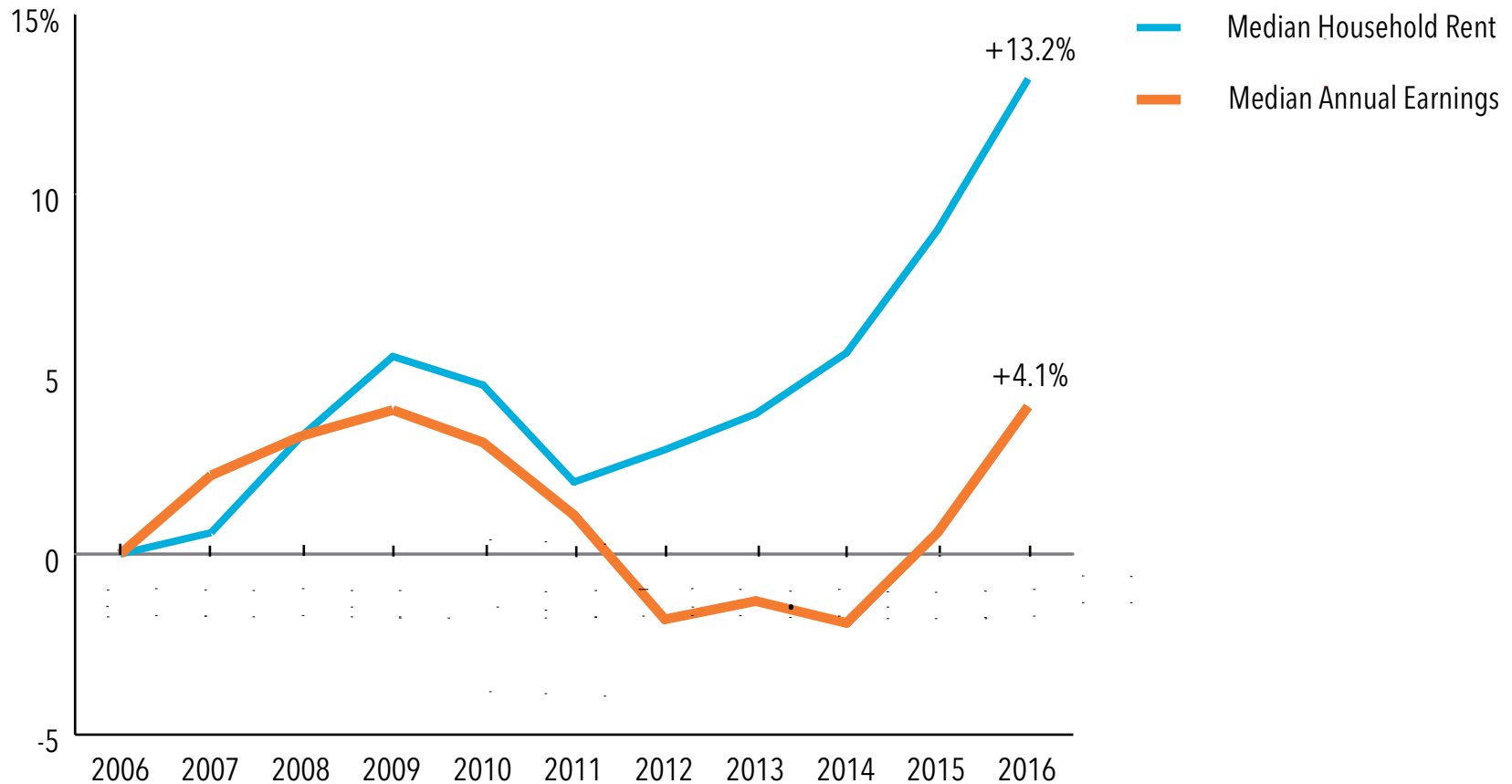
Note: Figures reflect 2017 dollars.

Source: Economic Policy Institute analysis of US Census Bureau, Current Population Survey data



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

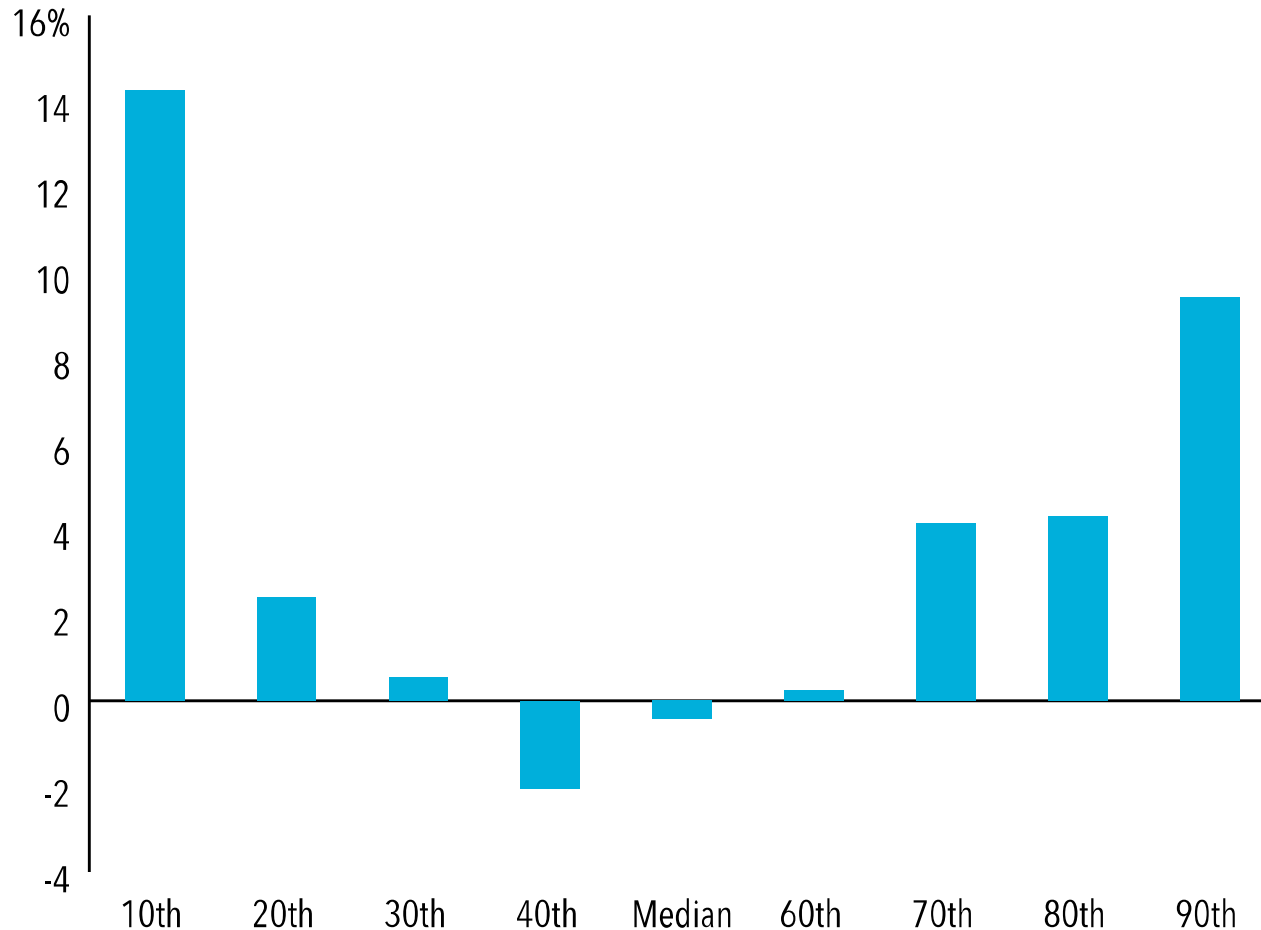


How Can Public Policies Address Wage Stagnation?



The Lowest-Earning Workers Have Seen Their Hourly Wages Increase Significantly Since 2006

Percent Change in Inflation-Adjusted Hourly Wages Since 2006 for Workers Ages 18 to 64



Source: Economic Policy Institute analysis of US Census Bureau, Current Population Survey data



Some Policy Approaches to Reduce Wage Stagnation or Address Its Effects

- Require employers to pay workers more, e.g., raise the minimum wage or expand overtime eligibility
- Support collective bargaining
- Guarantee a job or a basic income, so workers are able to refuse low wages
- Provide workers with a post-wage income boost, e.g., an earned income tax credit (EITC)

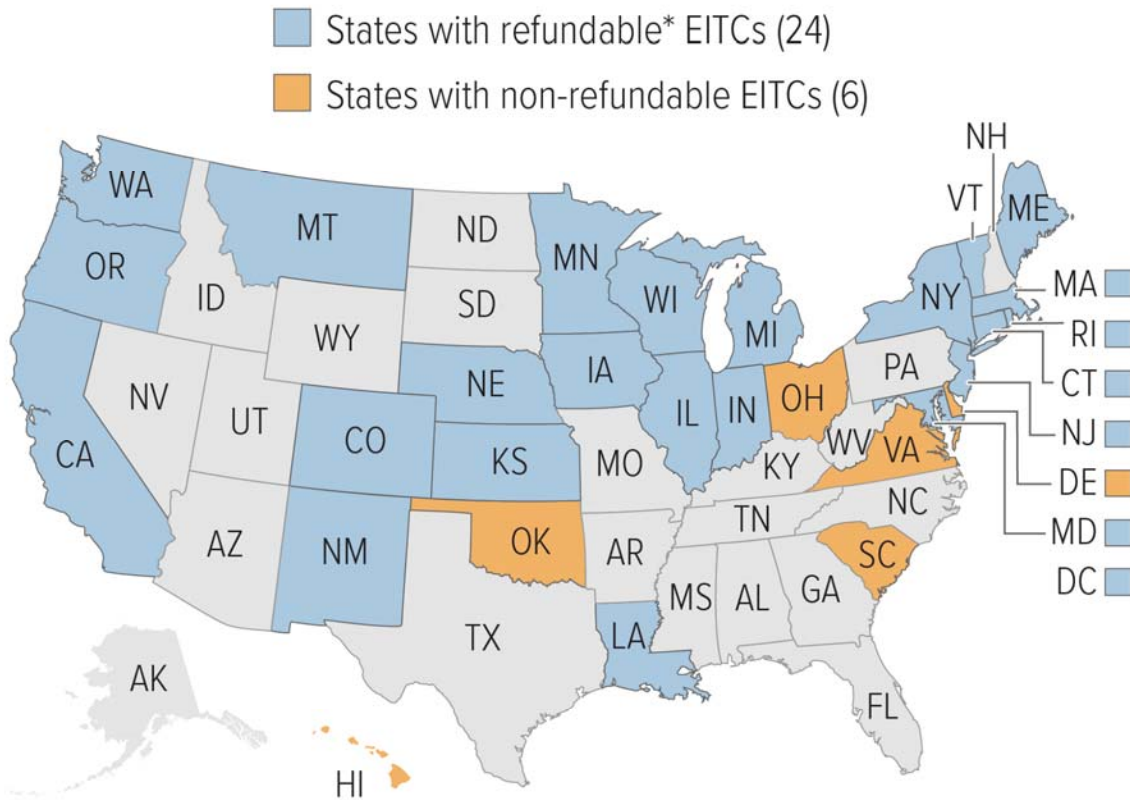


The CalEITC: A State-Level Policy to Boost Workers' Incomes





Twenty-nine States and DC Have Enacted EITCs, 2017



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

Source: CBPP analysis

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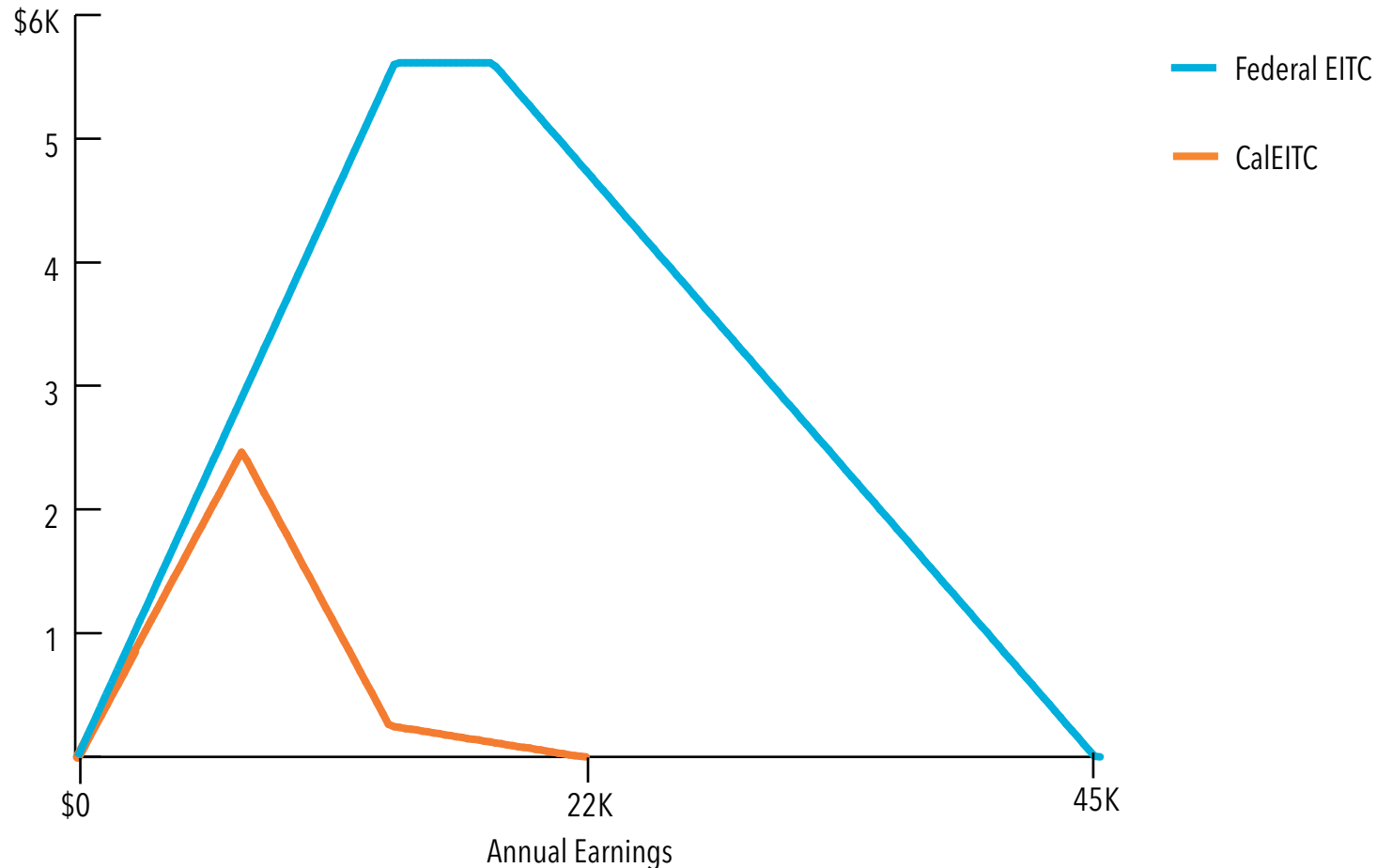
Advantages of the CalEITC

- 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



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





**INCOME LIMIT
EXPANSION**

**AGE LIMIT
EXPANSION**



2015

2016

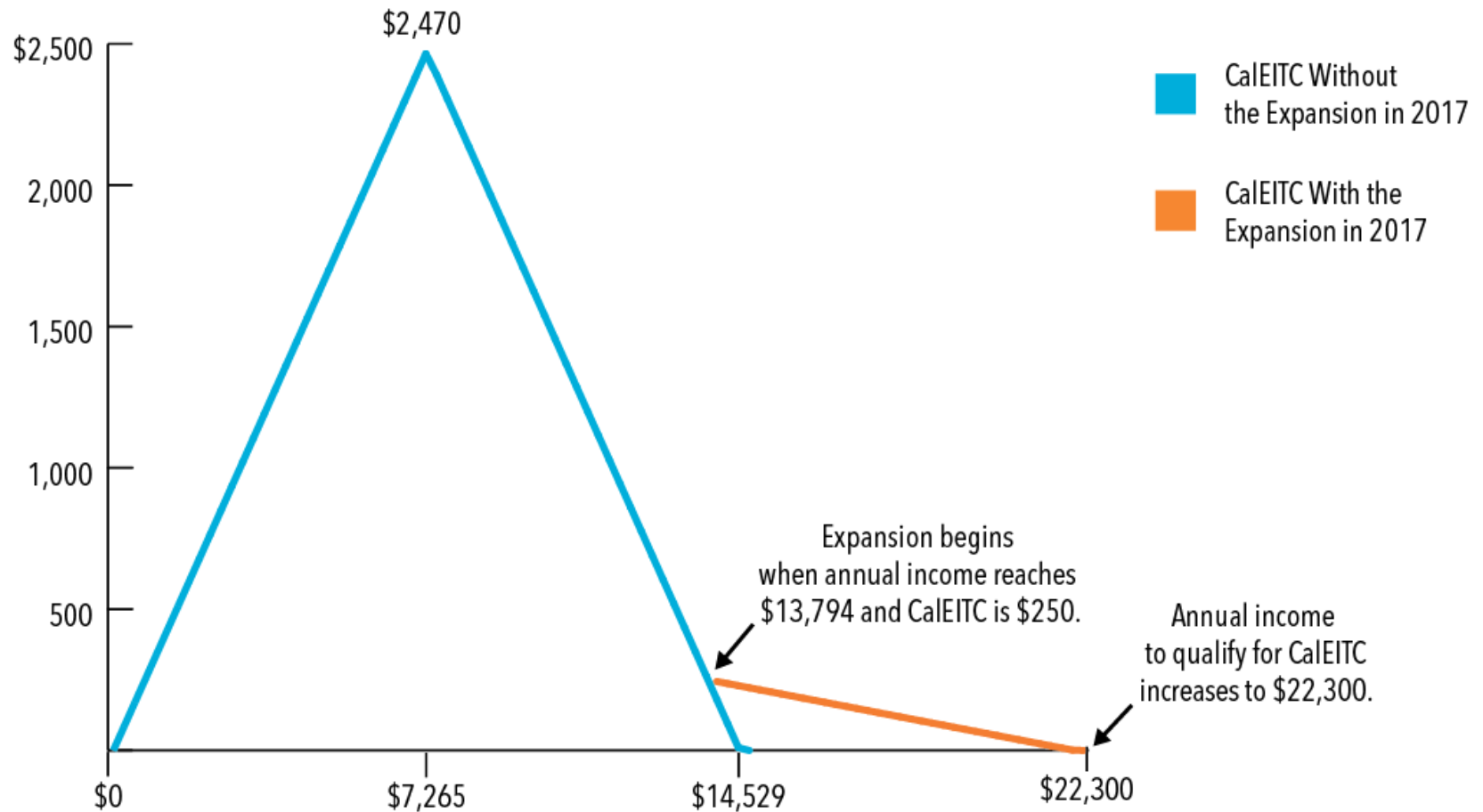
2017

2018



The Income Limit for Parents to Qualify for the CalEITC Increased to a Full-Time Minimum Wage Salary

Estimated CalEITC for Workers With Two Qualifying Children by Annual Earnings, Tax Year 2017

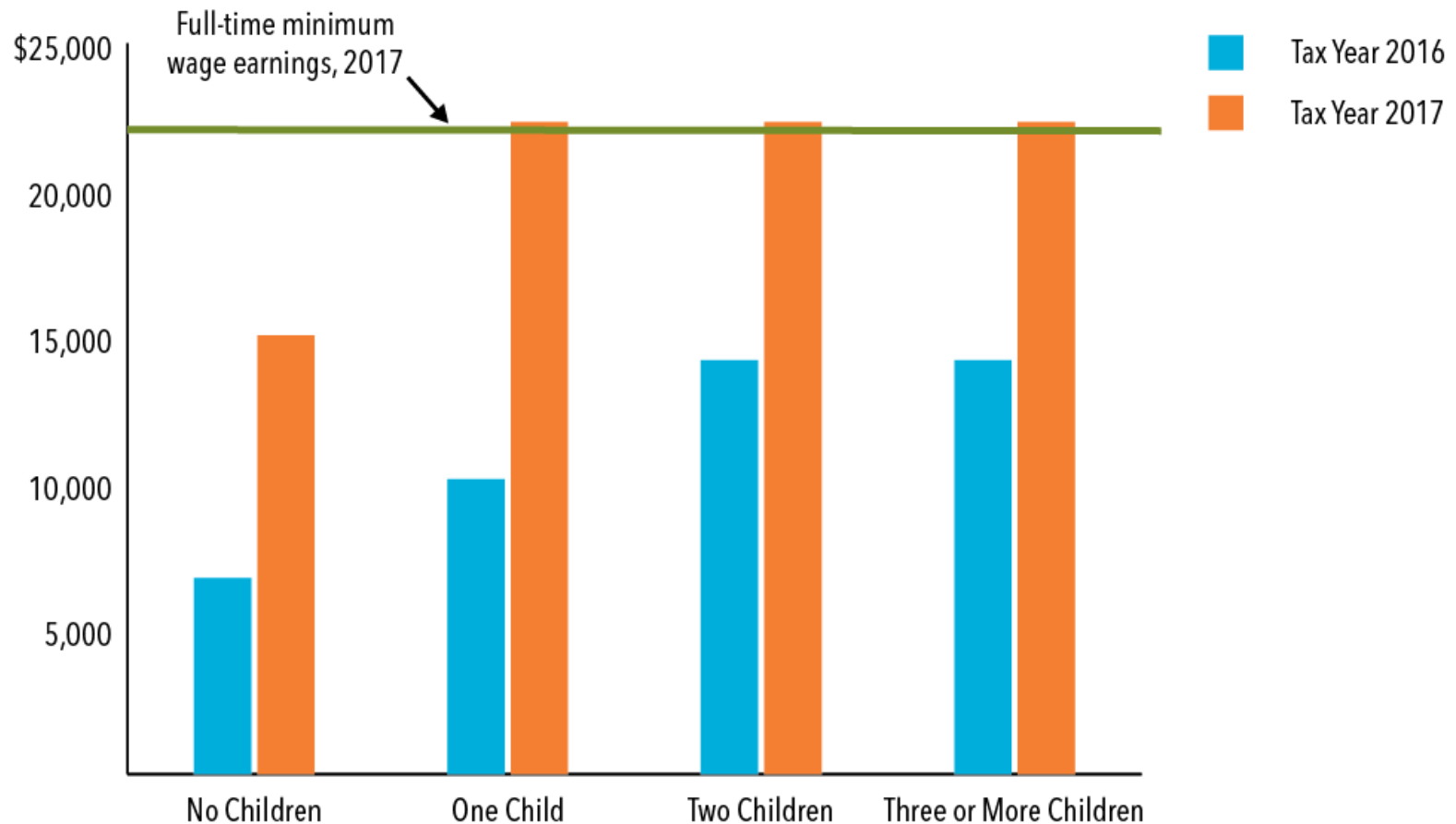


Source: California Budget & Policy Center analysis of Section 17052 of the California Revenue and Taxation Code



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



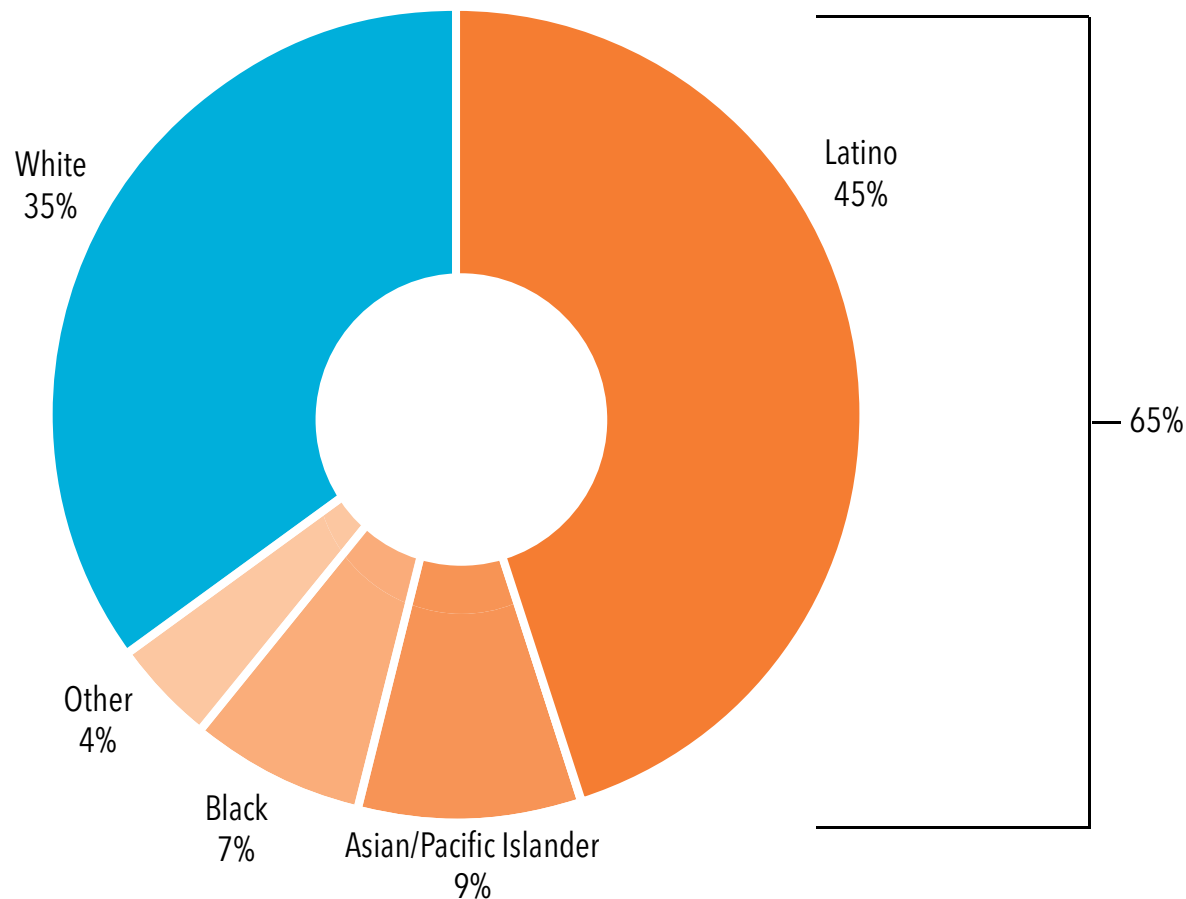
Note: Minimum wage earnings reflect the \$10.50 per hour state minimum wage for workers at large businesses that took effect on January 1, 2017.

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



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

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



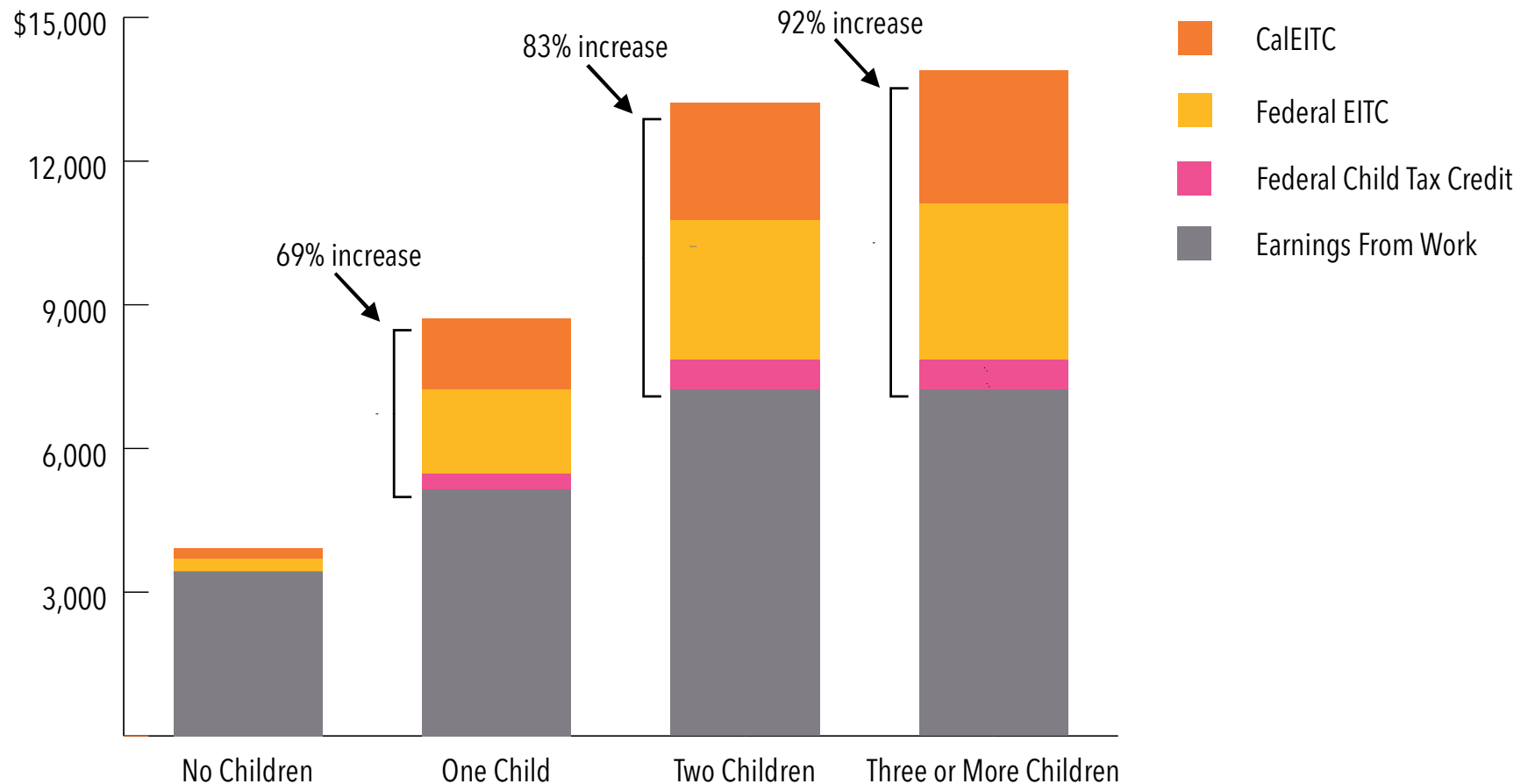
Note: Analysis uses an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California. Based on CalEITC parameters as of tax year 2017, modeled in 2015 population data, lowering the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

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



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



Options for Further Expanding the CalEITC

Both incremental and more ambitious expansions could extend the CalEITC's reach and impact.



Options for More Incremental Expansion and Strengthening

- Permanently link the income limit to a full-time minimum-wage salary
- Increase the credit size and income limit for workers without dependent children
- Increase the availability of free tax preparation services
- Allow a monthly payment option as an alternative to the existing lump-sum payment



Options for More Ambitious Expansion

- Extend eligibility to workers filing taxes with Individual Taxpayer Identification Numbers (ITINs)
- Restructure the eligibility and credit amounts to provide a type of basic income guarantee
 - Expand the definition of eligible workers to include caregivers and students without paid employment
 - Extend income eligibility and increase credit sizes for those now receiving small credits



The Bottom Line

- Wage stagnation is a serious challenge, but it can be addressed through public policies.
- State EITCs like the CalEITC represent a highly feasible policy strategy for increasing workers' incomes, helping to mitigate the effects of wage stagnation.
- There are many potential options – both incremental and more ambitious – to build on and strengthen the CalEITC to extend its reach and impact.







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