



California Budget & Policy Center

# The CalEITC Is a Critical Tool for Improving Working Families' Economic Security

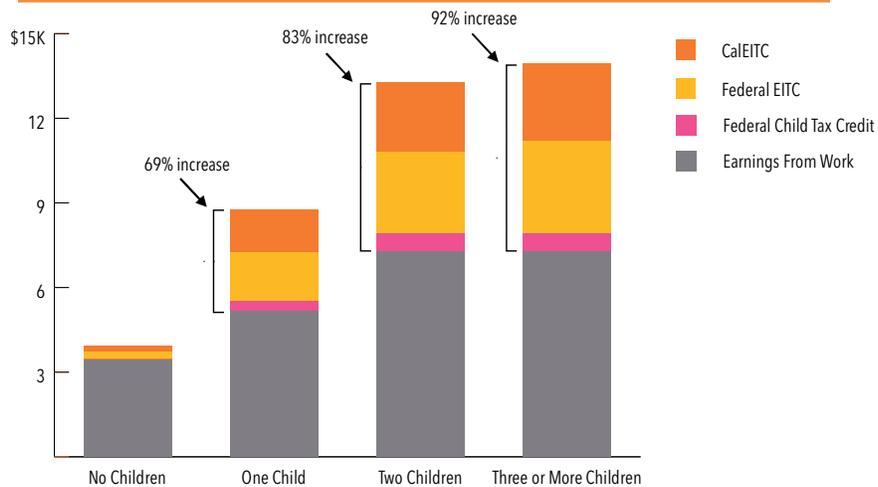
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ASSEMBLY BUDGET SUBCOMMITTEE 4

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## 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



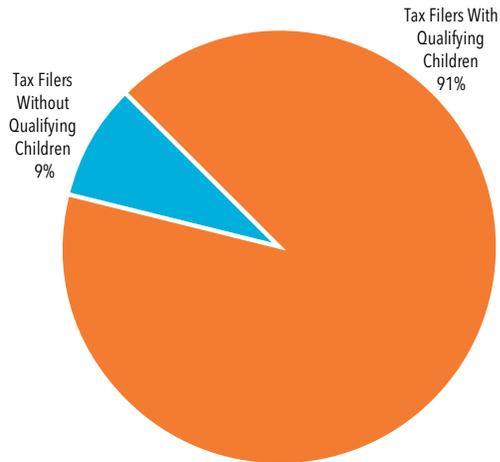
Note: These families qualify for the refundable portion of the Child Tax Credit, referred to as the Additional Child Tax Credit.  
Source: Budget Center analysis



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## More Than 90 Percent of the Benefits of the CalEITC Went to Families With Children

Share of Total CalEITC Tax Credits, Tax Year 2015

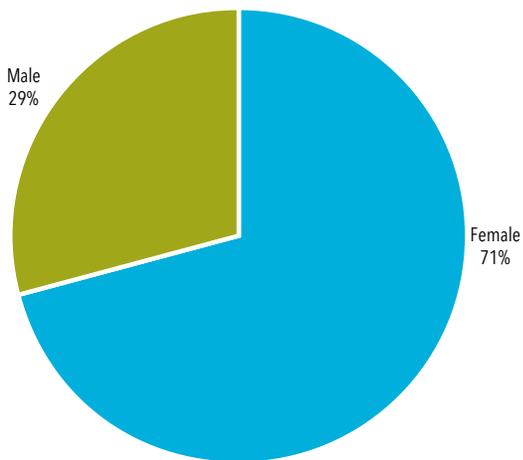


Source: Franchise Tax Board



## Women Make Up 7 in 10 Tax Filers With Children Eligible for the CalEITC

Among Individuals With Children, Gender of Those Likely Eligible for the CalEITC, 2015



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



## CalEITC Claims and Credit Amounts

Tax Year 2015 (As of August 20, 2016)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	35,212	9%	\$39,284,908	20%	\$1,116
2 Dependents	77,885	21%	\$76,533,374	39%	\$983
1 Dependent	101,287	27%	\$61,954,210	32%	\$612
0 Dependents	158,915	43%	\$17,717,082	9%	\$111
All Filers	<b>373,299</b>	100%	\$195,489,574	100%	\$524

Tax Year 2016 (As of August 19, 2017)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	35,124	10%	\$39,970,185	20%	\$1,138
2 Dependents	77,339	21%	\$78,154,657	40%	\$1,011
1 Dependent	96,039	26%	\$59,073,215	30%	\$615
0 Dependents	159,841	43%	\$18,897,260	10%	\$118
All Filers	<b>368,343</b>	100%	\$196,095,317	100%	\$532

Tax Year 2017 (As of March 17, 2018)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	83,069	10%	\$39,728,823	19%	\$478
2 Dependents	169,977	21%	\$76,204,623	37%	\$448
1 Dependent	270,771	34%	\$68,851,517	34%	\$254
0 Dependents	268,118	34%	\$19,756,820	10%	\$74
All Filers	<b>791,935</b>	100%	\$204,541,783	100%	\$258

Note: Tax year 2017 data are not comparable to prior years because California extended the CalEITC to self-employed workers who otherwise qualify for the credit and raised the income limit to qualify for the credit for all workers.

Source: California Budget & Policy Center analysis of Franchise Tax Board data



## The CalEITC Builds on the Well-Documented Success of the Federal EITC

State Earned Income Tax Credits, like California's CalEITC, are important tools for boosting economic security among working families. By piggybacking on the *federal* EITC, these state credits further increase families' incomes, helping them to better make ends meet. In addition, state EITCs may enhance the federal EITC's well-documented benefits to children, families, and communities. Decades of research shows that the federal EITC:

- **Reduces poverty.** The federal EITC is "the cornerstone of U.S. anti-poverty policy." Together with the Child Tax Credit (CTC), it lifts more of the nation's children out of poverty than any other federal program. Annually, an average of 1,365,000 Californians, including 683,000 children, escaped poverty between 2014 and 2016 thanks to these two tax credits, according to the Center on Budget and Policy Priorities analysis based on the Supplemental Poverty Measure (SPM). Yet as striking as these figures are, they may *undercount* the number of people lifted out of poverty. Recent research finds that the federal EITC reduces poverty among single mothers *nearly twice as much* as previously thought when the credit's proven success in boosting employment is taken into account. Also, by building on the federal EITC, state EITCs further reduce hardship by lifting additional families above the poverty line or by bringing their incomes closer to the poverty line, reducing the depth of their poverty. Between 2010 and 2014, state EITCs *on their own* cut child poverty rates based on the SPM by between 0.1 and 1.8 percentage points, with greater reductions in states with larger credits. Because California's state credit primarily targets families with incomes well below the poverty line, it largely reduces the depth of poverty for those who claim the credit. With the expansion of the CalEITC adopted in 2017, the credit is estimated to make 2.1 million people, including 606,000 children, less poor, while lifting 52,000 people, including 24,000 children, out of poverty altogether, according to the California Budget & Policy Center's analysis of US Census Bureau data based on the California Poverty Measure.
- **Encourages work.** By rewarding increased work effort, the federal EITC significantly boosts employment among single mothers according to a substantial body of research. "Essentially all authors agree that the [federal] EITC expansion [in the 1990s] led to sizeable increases in single mothers' employment rates, concentrated among less-skilled women and among those with more than one qualifying child," according to one review. In fact, one study found that the expansion of the federal EITC raised employment among single mothers more than the 1996 welfare law, which imposed strict work requirements on families receiving cash assistance.

- **May improve families' health.** Several studies find that the federal EITC may improve health for mothers and babies. For example, one study found that following federal EITC expansions in the 1990s, infants born to mothers who likely received the largest increases in the credit had the greatest improvements in certain health measures, such as birth weight, which is a key predictor of health and economic well-being in adulthood. Research has also found that following federal EITC expansions mothers experienced improved health, including reduced stress – an important outcome given the negative effects that maternal stress may have on children's development. Other research has specifically linked state EITCs to better health for children, including increased birth weights and improved health status. These findings are important because considerable evidence links poor health during childhood to lower educational attainment and lower future earnings as well as to poor health during adulthood.
- **May boost children's school achievement.** Several studies find that the federal EITC may improve school achievement and higher educational attainment for children. For example, one study found that children in families who received larger EITCs tended to score better on reading and math tests and were more likely to complete high school and attend college. "There is robust evidence of quite large effects of the [federal] EITC on children's academic achievement and attainment, with potentially important consequences for later-life outcomes," according to one review of the research.
- **May increase children's future earnings.** Because the federal EITC is linked to greater school success, children whose families benefit from this tax credit may earn more as adults, suggesting that the federal EITC could reduce economic hardship in the next generation. Indeed, research links modest increases in low-earning families' incomes – regardless of the source – to a stronger future for young children. One study found that children whose families received an additional \$3,000 annually (in 2005 dollars) when the children were young earned 17% more, on average, each year between ages 25 and 37 compared to similar children whose families did not receive an income boost.
- **Boosts California-based businesses and the state's economy.** Around 3.3 million Californians benefited from the federal EITC in 2015, and federal EITC claims brought \$7.7 billion in federal funds into the state. This significant influx of federal dollars helped support California jobs and businesses since families who benefit from the federal EITC tend to use their tax refunds to pay for basic expenses. Research suggests that the federal EITC provides a significant boost to local communities in California. Two studies (here and here) estimate that business sales generated from spending federal EITC dollars in California exceed the amount of federal EITC dollars Californians receive. These sales also facilitate job creation, which raises workers' incomes, and increases in sales and incomes in turn boost local and state revenues.



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