



CALIFORNIA BUDGET PROJECT

How a State EITC Could Reduce Economic Hardship in California

A PRESENTATION BY

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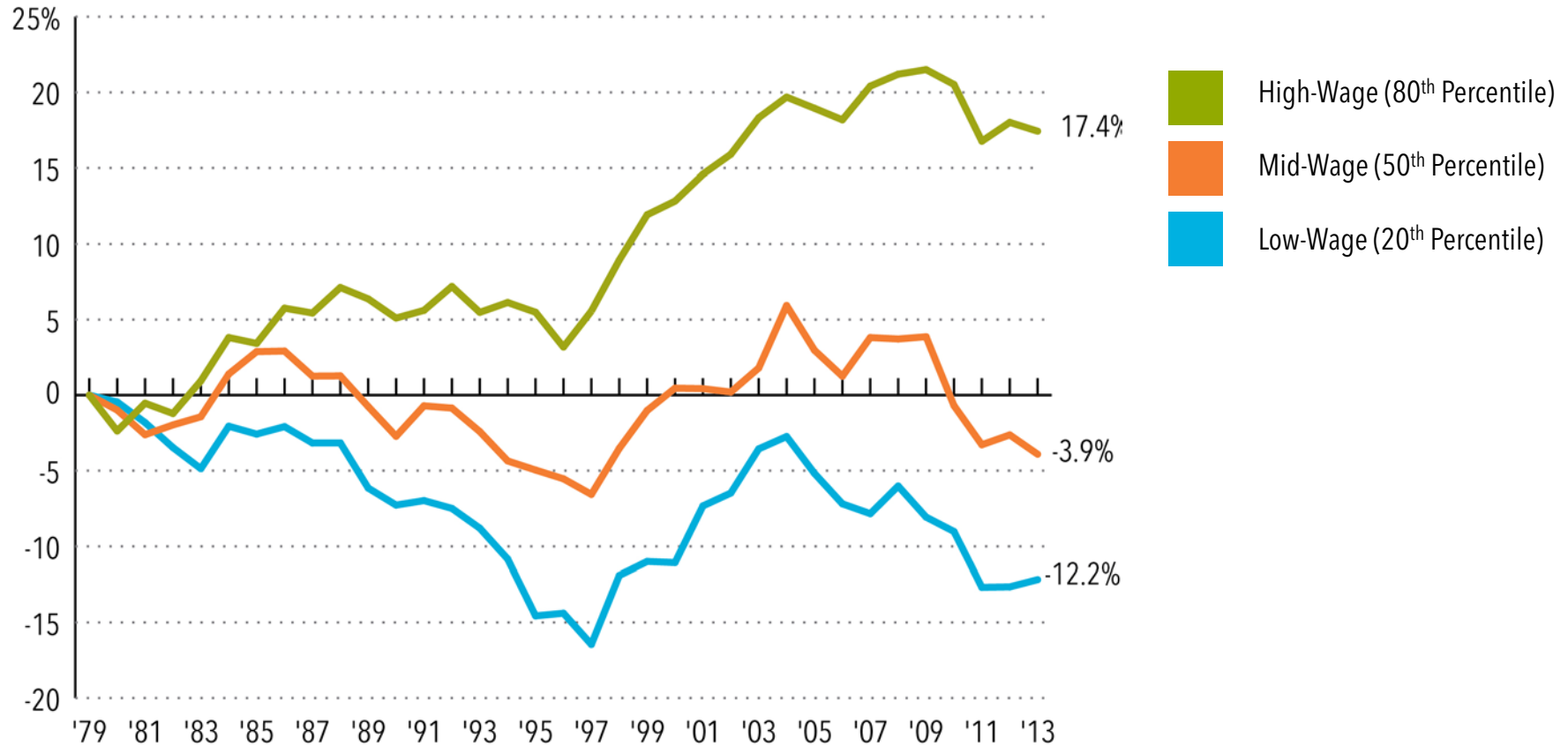
The CBP was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, subscriptions, and individual contributions. Please visit CBP's website at cbp.org.

Economic Security for Low- and Middle-Income California Households Has Eroded Over the Past Generation



Wages for California's Low- and Mid-Wage Workers Have Eroded Over the Last Three Decades

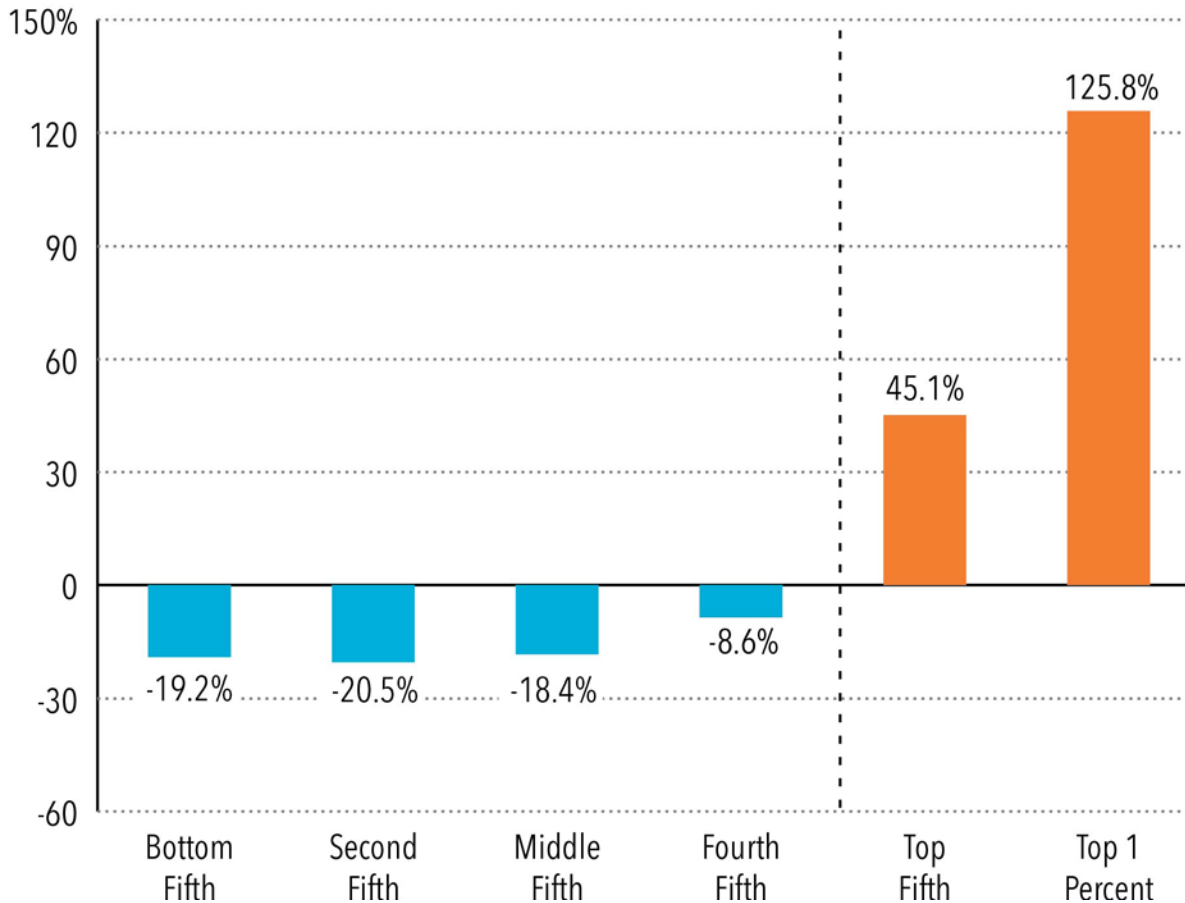
Percent Change in Inflation-Adjusted Hourly Wages Since 1979 (2013 Dollars)



Source: CBP analysis of US Census Bureau data

Only California's Wealthiest Saw Increases in Average Income Over the Last Generation

Percent Change in Average Adjusted Gross Income (AGI), 1987-2012, Inflation-Adjusted



Source: Franchise Tax Board

A State EITC Would Reduce Economic Hardship in California



The Benefits of a State EITC

A state EITC would:

- Allow low- and middle-income working families to keep more of their earnings.
- Help rebalance California's system of state and local taxes, which currently asks low-income families to pay a larger share of their income in taxes than high-income families.
- Complement other state policies, such as an increase in the California's minimum wage.

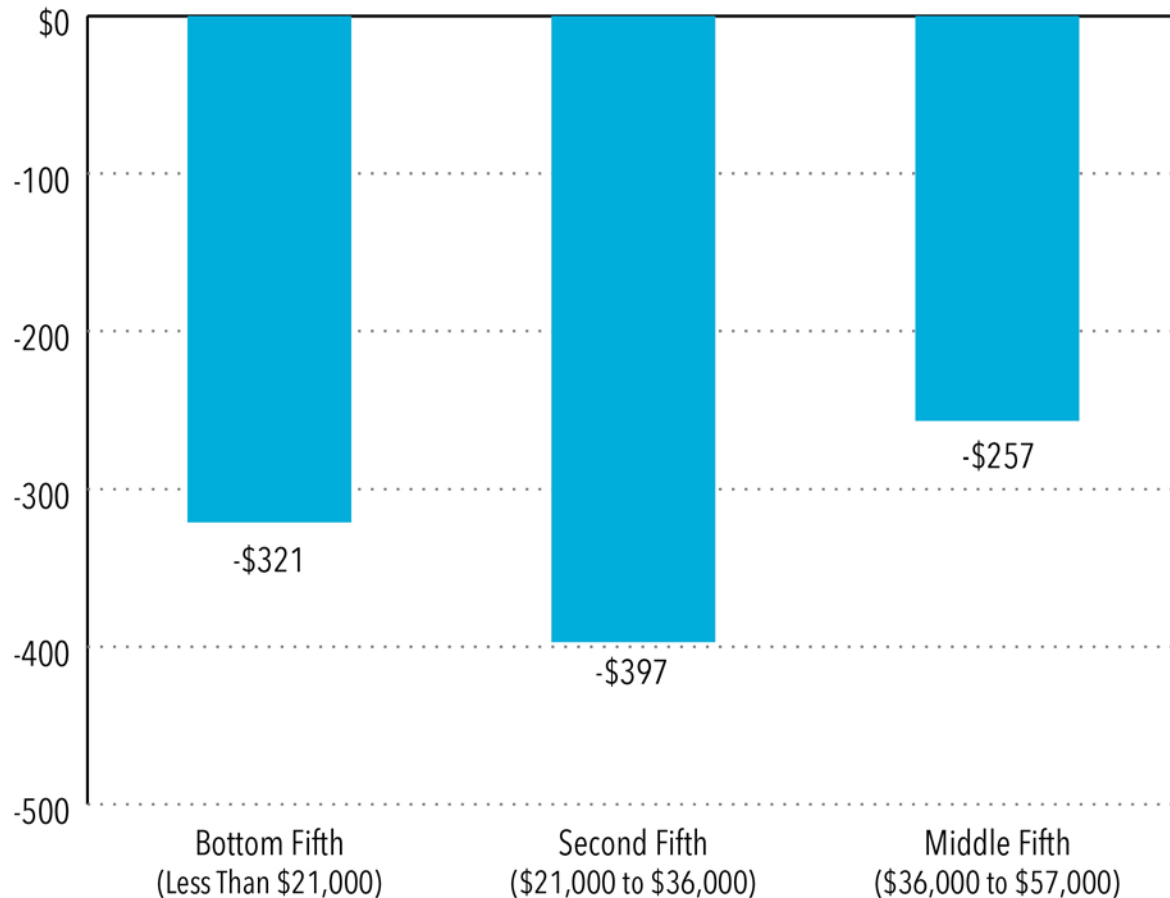
Nearly 70 Percent of Families Living in Poverty Had at Least One Working Adult in 2013



Two in Three California Families
Living in Poverty Have Jobs

Low-and Middle-Income Families Would Receive a Tax Cut With a State EITC

Average Tax Cut From a State EITC Equal to 15 Percent of Federal EITC, by Income Segment

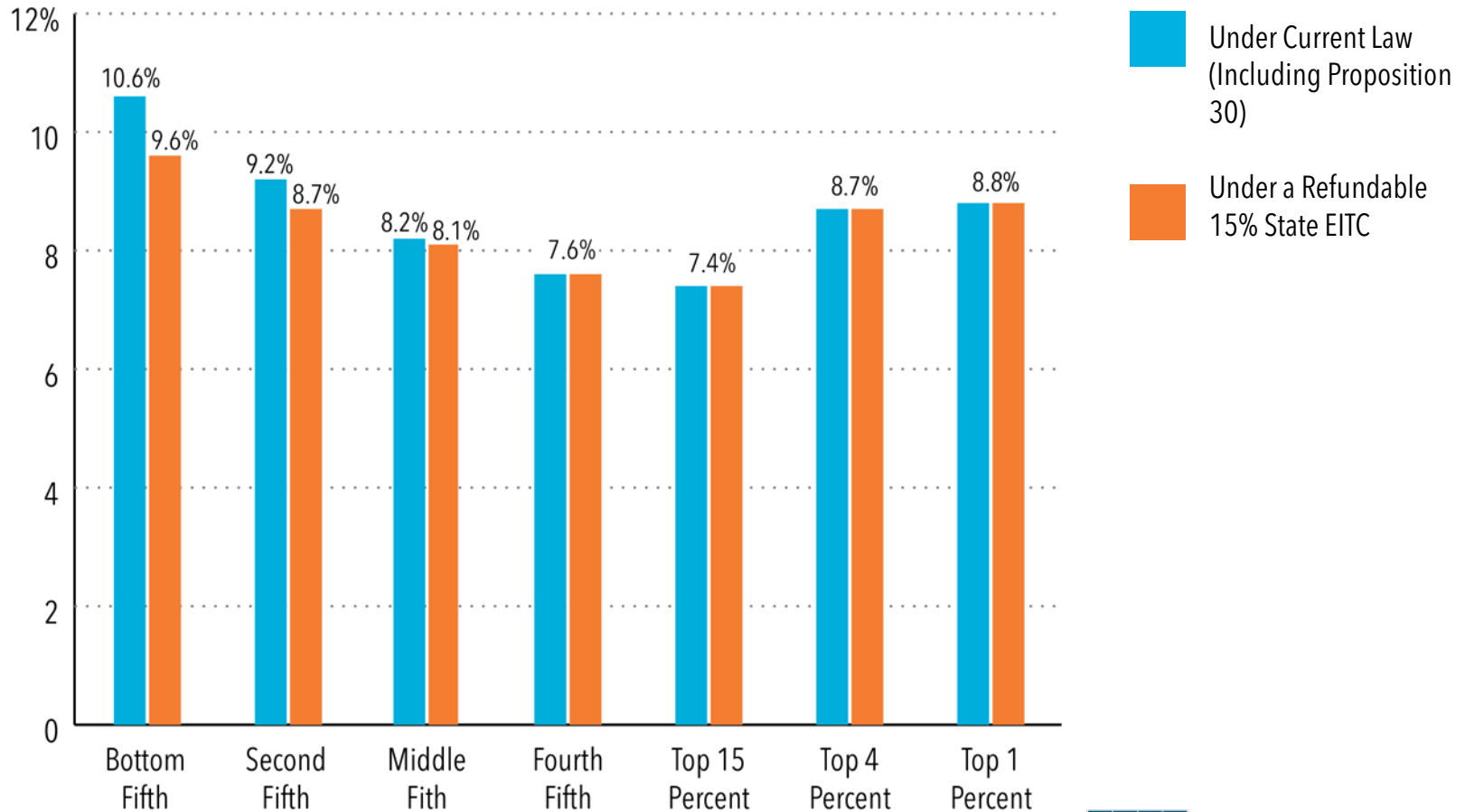


Note: See California Budget Project, *A State EITC: Making California's Tax System Work Better for Working Families* (December 2014) for technical notes.

Source: Institute on Taxation and Economic Policy

A Refundable 15 Percent State EITC Would Help Rebalance California's System of State and Local Taxes

Average Percentage of Family Income Paid in State and Local Taxes, by Income Segment



Note: See California Budget Project, *A State EITC: Making California's Tax System Work Better for Working Families* (December 2014) for technical notes.

Source: Institute on Taxation and Economic Policy

A State EITC Works Best in Tandem With an Increase to the Minimum Wage

A state EITC:

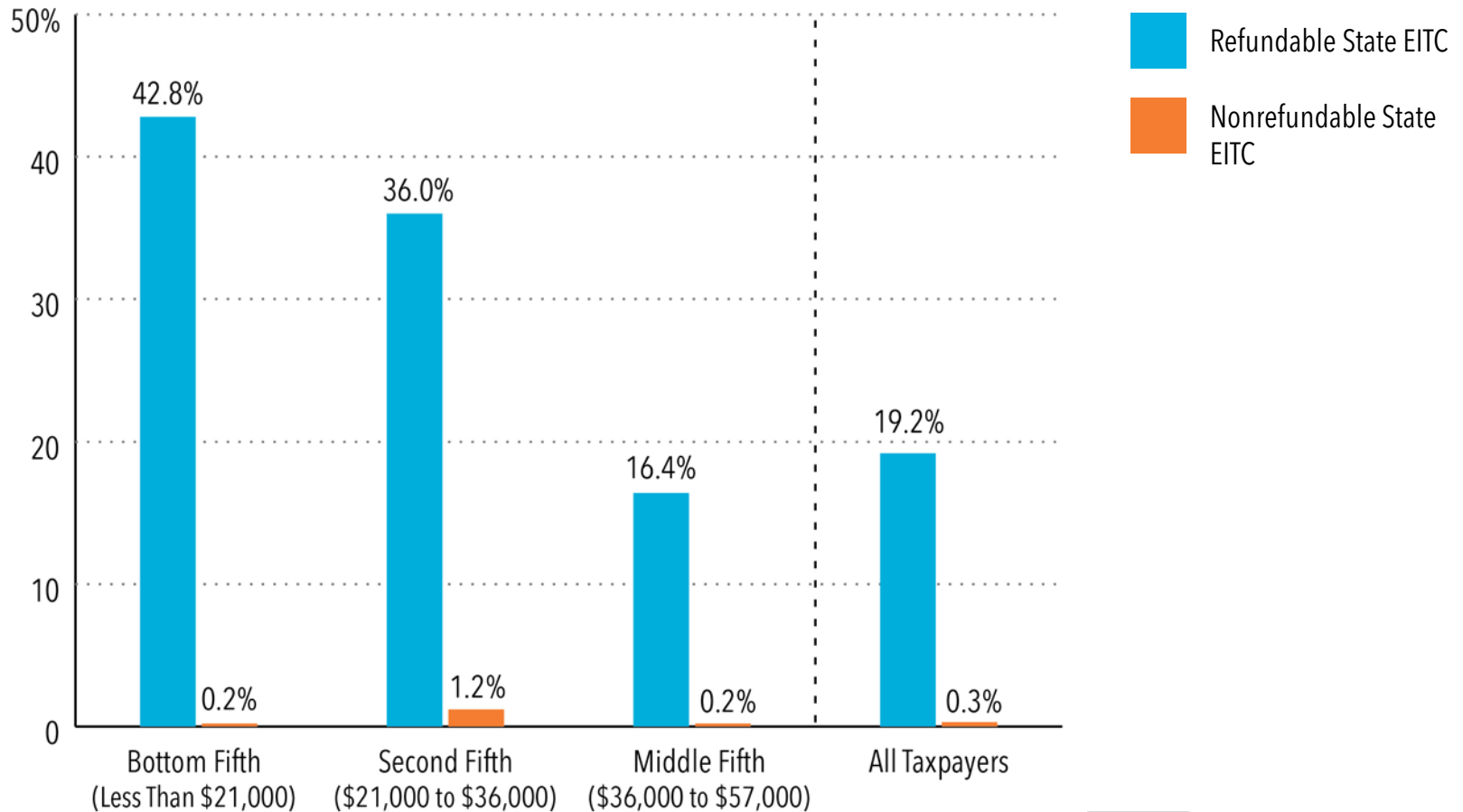
- **Can reach a different population in economic need.** This includes a single parent who earns slightly above the minimum wage but cannot work full-time because of a lack of child care.
- **Is timed differently.** A state EITC, by being an annual benefit, can be used for larger, one-time expenses like car repair or a security deposit on housing.
- **Increases the effectiveness of a rising minimum wage.** Minimum wage earners keep more of their raise with a state EITC.

Important Considerations When Implementing a State EITC



A Nonrefundable State EITC Would Reach Very Few Californians

Percentage of Taxpayers Estimated to Receive a State EITC Equal to 15 Percent of Federal EITC



Note: See California Budget Project, *A State EITC: Making California's Tax System Work Better for Working Families* (December 2014) for technical notes.

Source: Institute on Taxation and Economic Policy

Other Issues to Consider

Policymakers could also consider:

- Size and reach of the credit.
- Simplicity of administering the credit or claiming the credit.
- Alternative design options to target specific populations, such as childless workers, families with the lowest incomes, or families with young children.

A State EITC Is a Necessary Component of Any Sustained Policy Response to Economic Hardship in California

Reducing Economic Hardship Requires a Sustained and Multifaceted Policy Response

A *package* of policies is needed to reduce economic hardship in California. This means a mix of policies that address the challenge from different directions, including:

- Increasing work earnings and family income.
- Easing the cost burden of necessities like housing, health care, and child care.
- Strengthening the safety net to prevent more Californians from falling into poverty during difficult economic times.

A state EITC fits into a larger strategy to achieve these goals.



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