

APRIL 11, 2019

Background on the California Earned Income Tax Credit

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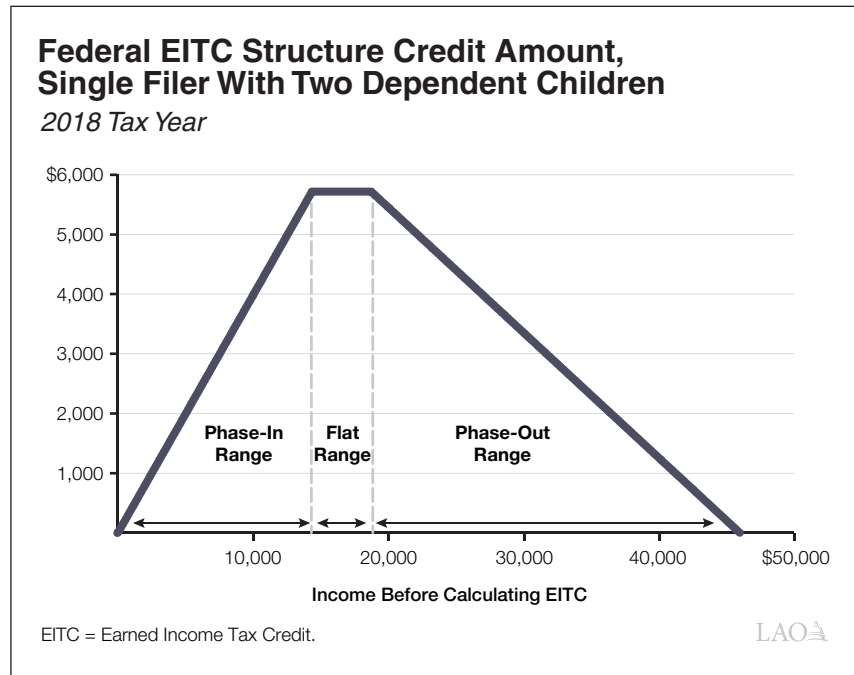
Senate Budget and Fiscal Review Committee
Subcommittee 4 on State Administration and
General Government

Hon. Maria Elena Durazo, Chair



LEGISLATIVE ANALYST'S OFFICE

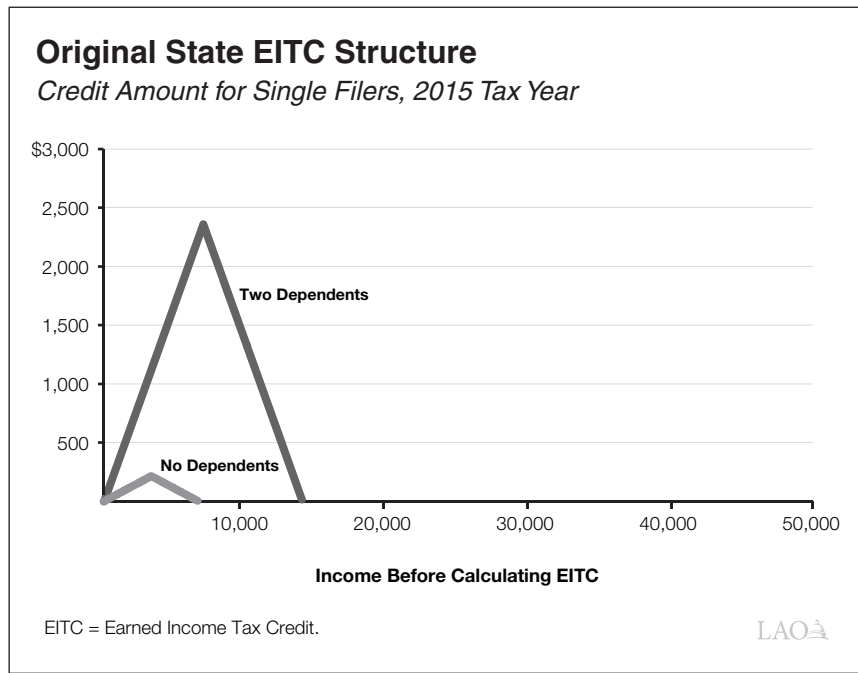
Basic Structure of the Federal Earned Income Tax Credit



What Is the Federal Earned Income Tax Credit (EITC)? The federal EITC is a fully refundable (meaning the filer receives the full amount of the credit even if it reduces liability below zero) income tax credit that reduces tax liability for filers with earnings. The amount of the federal EITC initially rises with earnings, such that the greater the filer's earnings, the larger the credit. For higher levels of earnings, the federal EITC peaks and then gradually phases out. The federal EITC benefit can be significant. For tax year 2018, filers with three or more qualifying dependent children may claim up to \$6,431, with lesser amounts available for filers with fewer dependents. Filers with no qualifying dependents receive a much smaller maximum benefit of only \$519.



State Created EITC in 2015



2015 State EITC Aimed at Lowest-Income Workers. The original state EITC established in 2015 focused on filers with income within the federal phase-in range to strengthen the incentive to enter the workforce and direct the greatest benefits to the lowest-income workers.



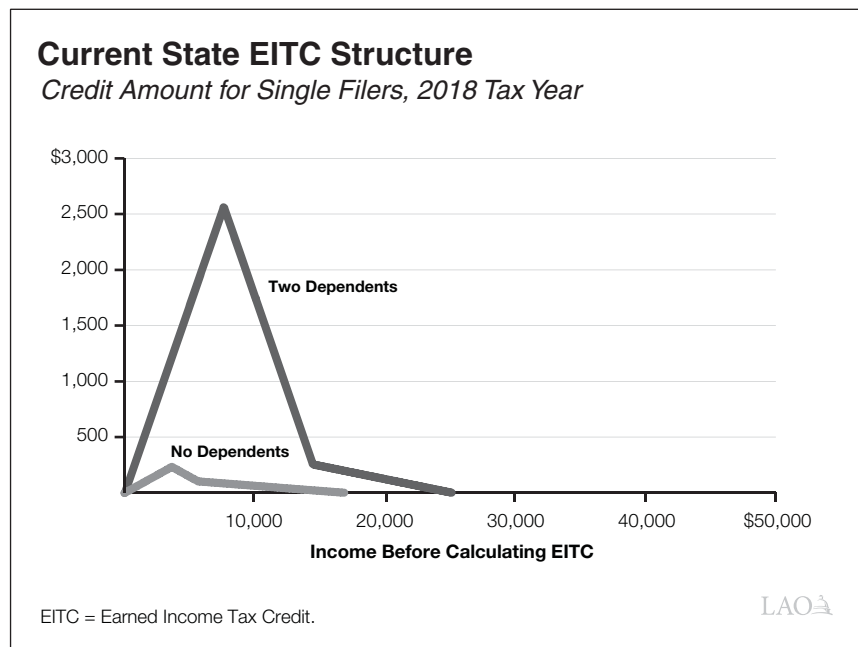
State Expanded EITC in 2017 and 2018

2017 Expansion Raised Income Limits, Allowed Self-Employment Income. The state EITC was expanded in 2017 in two ways:

- Increased the income limit to \$15,000 for filers with no dependents and \$22,300 for filers with dependents.
- Allowed self-employment income to count as earned income for purposes of state EITC.

2018 Expansion Again Raised Income Limits, Extended Age Range. The state EITC was expanded again in 2018 in two ways:

- Income limits were increased again, to \$16,750 for filers with no dependents and \$24,950 for filers with dependents.
- Filers younger than 25 or older than 65 with no dependents were made eligible for state EITC. These filers are not eligible for federal EITC.



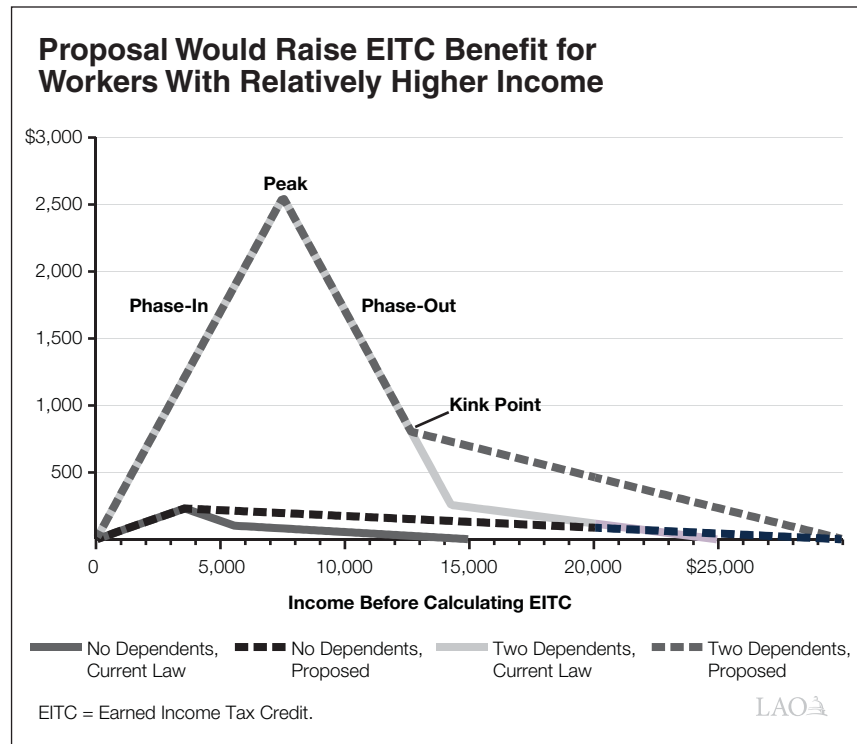
Expansions Increased EITC Claims Notably

Total California Earned Income Tax Credit (EITC) Allowed			
Tax Year	Number of Taxpayers	Amount of EITC	Average Credit Amount
2015	385,663	\$200 million	519
2016	385,910	205 million	531
2017	1,477,060	348 million	236

2018 Claims. With the filing season still in progress, over 1.3 million filers have filed for the state EITC with an average benefit amount of roughly \$200.



Governor's Proposed EITC Expansion



Governor's Proposal Expands State EITC in Three Ways. The Governor's expansion proposal would cost \$600 million.

- Increases income limit to \$30,000 for all eligible filers.
- Increases benefits for filers with incomes starting near the "kink" point.
- Provides an additional \$500 for filers with at least one dependent under age 6.



LAO Assessment of Governor's Proposal

- ***Impact Would Be Broad, but Not Deep.*** We estimate that the proposed expansion would benefit about 2.2 million filers. Slightly more than half of these filers would have no dependents. We estimate that 50,000 filers would be pulled above the poverty level, and 12,000 filers out of deep poverty (income less than half the poverty level).
- ***Effects on Hours Worked Probably Would Be Modest.*** Evidence suggests the EITC encourages people who might not otherwise work to work at least part time, but has limited impact on the number of hours worked by people who are already in the work force. This proposal would not have a large impact on employment or hours worked, as the benefit increases tend to be bigger after the phase-out range begins.
- ***Expanded or Refundable Child Care Tax Credit Could Be an Alternative to \$500 Young Child Credit.*** We estimate that making the state child tax credit refundable and increasing the amount of the credit to be more similar to the federal credit would cost approximately \$125 million annually. Generally, making this credit refundable would benefit a broader income range—up to \$60,000 in income—than under the Governor's EITC expansion proposal.

