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The 2021-22 Budget: Golden State Stimulus

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On State Administration and General Government
Hon. Anna M. Caballero, Chair



LEGISLATIVE ANALYST'S OFFICE

Pandemic Has Hit Low-Income Californians Hard

Substantial Job Losses Among Low-Income Workers. The pandemic has led to devastating job losses, which have been concentrated among California’s low-wage workers. More than 80 percent of unemployed workers live in households with below-average annual income.

Costs for Necessities Have Gone Up. Food prices have risen quickly during the pandemic—up 3.7 percent overall. Utility bills also have gone up as families spend more time at home.

Unprecedented Federal Relief Has Mitigated Pandemic’s Impacts. Federal relief programs have provided tens of billions of dollars of temporary assistance to low-income Californians during the pandemic, particularly:

- **Unemployment Insurance (UI).** The federal government took early steps to boost UI benefits and extend benefits to self-employed workers. In 2020, the state regularly distributed \$5 billion in UI benefits per week (for comparison, under normal conditions, the state typically distributes about \$100 million per week). Expanded benefits also replaced a larger share of workers’ lost earnings. An unemployed minimum wage worker, who normally makes \$520 per week, received \$860 per week in the spring and summer under the federal increase and will receive \$560 per week under the recent federal extension. Today, more than 4 million Californians continue to receive UI benefits.
- **Stimulus Checks.** Over the last year, most low-income Californians received two federal stimulus checks totaling \$1,800 per adult and \$1,100 per child. The new federal administration has proposed a third round of \$1,400 stimulus payments. If these proposed payments are enacted, it would bring the total stimulus payments to eligible families of four to \$11,400.
- **Help Paying for Necessities.** A variety of federal relief efforts have increased assistance available to low-income households to help them pay for food, utilities, internet, and rent. In federal food benefits alone, low-income households have received more than \$7 billion in emergency assistance during the pandemic.



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Undocumented Individuals Not Eligible for Federal Relief. While federal relief programs have helped most low-income Californians, undocumented individuals have been left out of these federal programs. In recognition of this, last year the state expanded assistance to this population in two ways:

- ***Disaster Relief Assistance for Immigrants (DRAI) Program.*** DRAI provided a one-time payment of \$500 to about 150,000 undocumented Californians—less than 10 percent of the state’s undocumented population, which totals over 2 million.
- ***Earned Income Tax Credit (EITC).*** The California EITC is an income tax credit that increases the after-tax income of Californian’s earning \$30,000 or less per year. (See [this report](#) for more information on the EITC.) The state expanded the California EITC to taxpayers who file using an Individual Taxpayer Identification Number (ITIN). ITINs are used by about half of the state’s undocumented workers to pay taxes.



Governor's Proposal: Golden State Stimulus

Tax Refunds to Low-Income Workers. The Governor's budget proposes a one-time \$600 tax refund to two groups of taxpayers:

- Taxpayers who received the EITC for 2019.
- Taxpayers who file using an ITIN and will receive the EITC for 2020.

Expedited Time Line. The \$600 payments would begin in February for workers who received the EITC in 2019. Eligible ITIN filers would need to file their 2020 taxes and claim the EITC before receiving their payments. This likely would occur sometime between February and April.

Cost. The Governor's budget assumes a cost of \$2.4 billion in 2020-21 to provide refunds to roughly 4 million households.



Is Targeting EITC Recipients the Best Approach?

Using One-Time Money for Pandemic Relief Makes Sense. The state is set to receive a significant one-time revenue windfall this year, followed by years of structural deficits. Given this outlook, prioritizing the one-time revenue windfall for one-time pandemic relief efforts—as the Governor’s tax refund proposal does—makes sense. One-time funds are not well suited to address longstanding issues, which require ongoing funding.

Payments Not a Major Source of Economic Stimulus. While these payments can be significant for low-income individuals and families, these payments are unlikely to have a major impact on the state’s economic recovery. This is because the \$2.4 billion in proposed relief payments represent less than one-tenth of one percent of the state economy. Regardless of whether the funds go to EITC recipients or other low-income populations, the economic effects of payments to low-income Californians would be equivalent.

Instead of Economic Stimulus, Focus on Filling Gaps in Federal Relief. Federal relief efforts during the pandemic have been unprecedented in scale. The state’s capacity to provide relief is much more limited. The state, therefore, should ensure that its pandemic relief (1) targets those most in need and (2) focuses on those not served by federal programs.

Not Clear That Targeting Relief to 2019 EITC Recipients Is Best Way to Fill in Gaps in Federal Relief. While many 2019 EITC recipients have faced income losses during the pandemic, most have received significant federal income support. Due to enhanced UI benefits and stimulus checks, income in 2020 for most EITC workers was similar, if not higher, than their 2019 income. In contrast, ITIN taxpayers and other undocumented workers have faced significant income losses but have not received UI benefits or stimulus checks.



Is Targeting EITC Recipients the Best Approach?

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Other Potential Limitations of EITC Targeting. There are a few other potential limitations of using EITC receipt to target pandemic relief:

- ***Not All Low-Income Taxpayers Claim EITC.*** Over 20 percent of low-income workers eligible for the EITC do not claim it. Using the EITC to target pandemic relief may leave out some low-income Californians.
- ***Some Advantages of EITC May Not Extend to \$600 Payment.*** Research suggests that the EITC provides work, educational, and health benefits to recipient households. While low-income households clearly would benefit from pandemic relief, the specific benefits of the EITC suggested in research may not extend to the Governor's proposal. The EITC's benefits come from the way the credit varies based on earnings. Under the Governor's proposal, the tax refund is the same amount for all filers and thus the Governor's proposal is not likely to produce similar results as the EITC.



Consider Other Approaches

What Is the Best Way to Help Low-Income Californians? We suggest the Legislature step back and consider the best way to help low-income Californians. Fortunately, for many households, early unprecedented federal actions (as well as recent extensions) to support Californians has mitigated the economic consequences of the pandemic. Additionally, the prospect of forthcoming federal action to boost household incomes would continue this support well into 2021. In thinking about its own approach, we suggest the Legislature carefully consider:

- Who has benefited least from federal relief efforts?
- Who has reduced access to state, local, or community resources during the pandemic?
- Who came into the pandemic with existing financial hardships?
- Whose costs have increased the most during the pandemic?

Next, we discuss a possible approach that takes these considerations into account.



A More Targeted Approach to Fill in the Gaps

Below, we outline an approach that the Legislature could consider. This approach attempts to balance the urgency of this crisis with the benefit of taking a moment to carefully consider the best use of state relief dollars.

Targeting Governor's Proposal to Fill in Gaps Left in Federal Relief.

Undocumented low-wage workers have faced significant job losses and have not benefitted from federal income support. Mindful of this inequity, the Legislature could narrow the Governor's proposal to better target state assistance to these workers. Compared to the Governor's proposal, a targeted approach would provide more aid to fewer workers. Specifically, the Legislature could consider taking early action on an alternative that (1) limits the tax refunds to ITIN filers whose incomes fell below a certain amount in 2019 or 2020 and (2) increases the payment to these taxpayers above \$600.

Targeted Approach Would Get Money Out Faster Than Governor's Proposal. Allowing ITIN filers to qualify for a refund based on their 2019 income would provide payments faster to many eligible taxpayers because the Franchise Tax Board (FTB) could begin processing these payments immediately. In contrast, under the Governor's proposal, FTB could not begin processing payments for ITIN filers until after they file their 2020 taxes.

Example of More Targeted Approach. As an example, the state could provide a larger, \$1,800 refund per adult (equal to the federal stimulus payments) to ITIN filers with incomes below \$30,000. This approach likely would cost between \$700 million and \$1 billion.



A More Targeted Approach to Fill in the Gaps

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Consider Using Remaining Funds to Provide One-Time Assistance to Other Low-Income Groups. Despite providing larger payments, our more targeted approach would cost less than the Governor’s proposal. Based on the key questions we put forth earlier, the Legislature may wish to use remaining funds to provide one-time supplemental payments to two low-income groups:

- ***Undocumented Workers Who Do Not Use an ITIN.*** Half or more of the state’s undocumented workers do not use an ITIN and, therefore, would not be eligible for the refunds discussed above. The Legislature could consider options to distribute cash assistance to these workers.
- ***Safety Net Program Recipients.*** These programs support the lowest income Californians, who likely have struggled with the rising costs of food and utilities and the potential inability to access government and community resources.

Providing one-time payments to undocumented workers who do not use an ITIN or safety net program recipients may take some time as the state would need to work out the proper distribution mechanisms.

