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The CalEITC and Young Child Tax Credit: Smart Investments to Broaden Economic Security for Californians

OCTOBER 2019

California Budget & Policy Center

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

Acknowledgments

Alissa Anderson prepared this chartbook.



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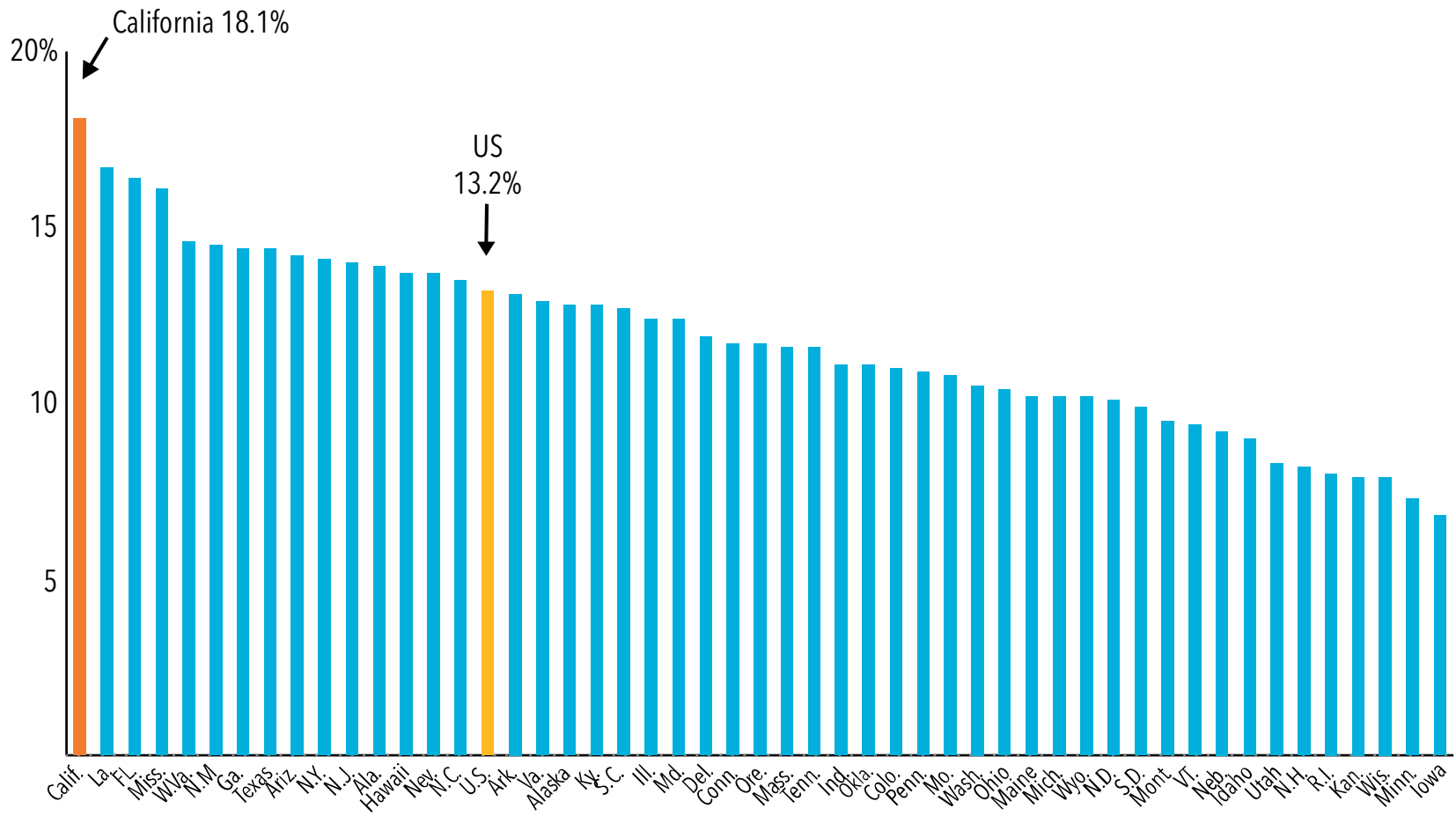


California Is an Economic Powerhouse, but Millions Are Not Benefiting From the State's Economic Success



California Has the Highest Poverty Rate of the 50 States Under the Supplemental Poverty Measure

State Poverty Rate Under the Supplemental Poverty Measure, 2016-2018



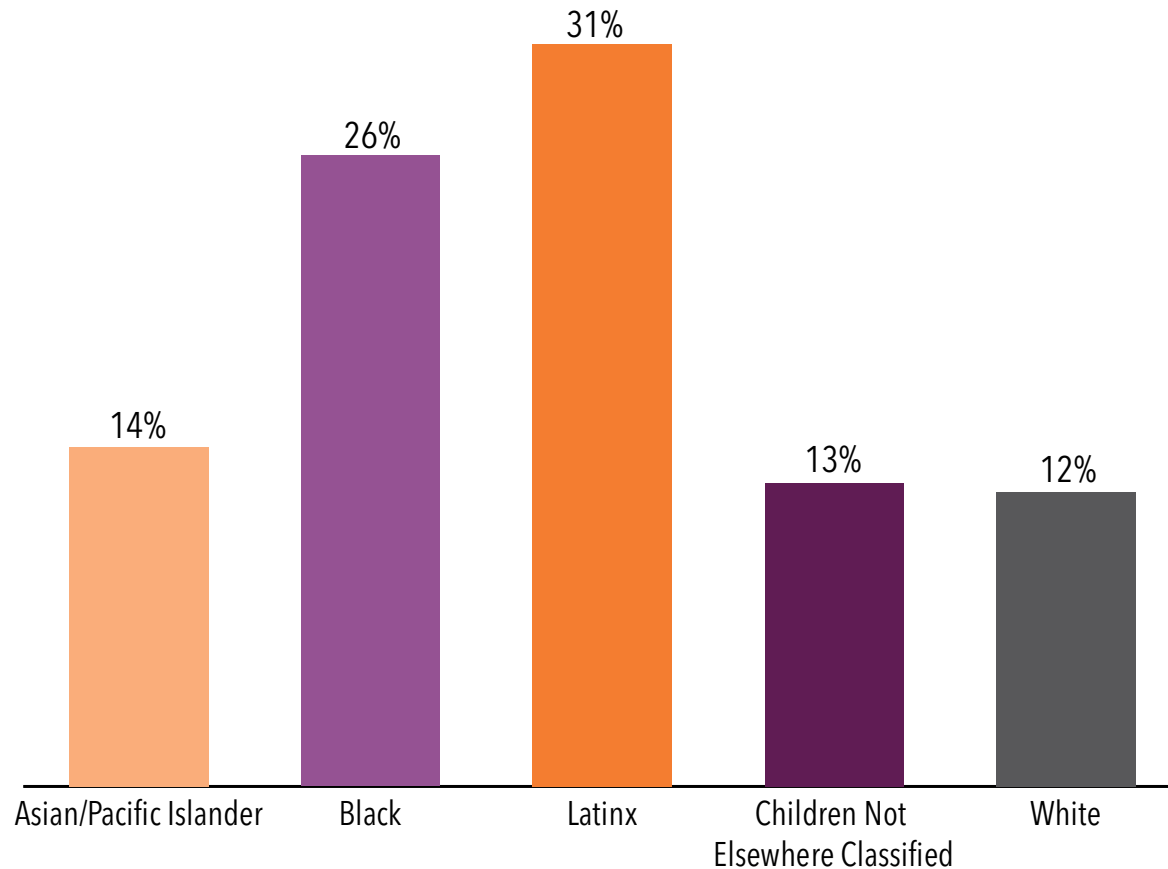
Source: US Census Bureau, Current Population Survey



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Legacy of Racist Policies and Ongoing Discrimination Contribute to Higher Poverty Rates for Children of Color

Poverty Rate for California Children, Supplemental Poverty Measure, 2013-2017



Note: Racial and ethnic groups are mutually exclusive. Due to data limitations, children who were not identified as Asian/Pacific Islander, Black, Latinx or white were grouped together. These figures provide only a incomplete understanding of disparities by race and ethnicity, as the data are not available or cannot be reported for all racial and ethnic groups.

Source: Budget Center analysis of US Census Bureau, Current Population Survey data



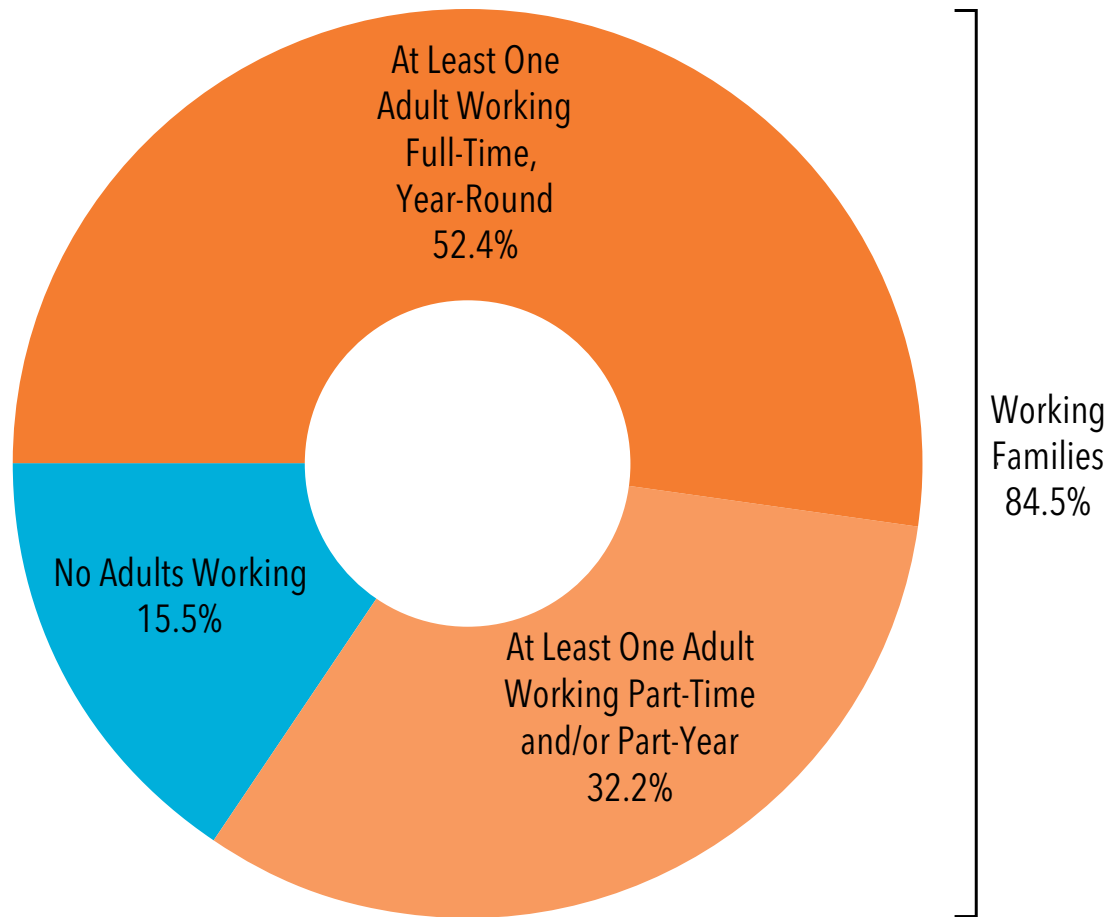
Discrimination and Racist Policies Contribute to High Poverty Rates for Children of Color

- **Children of color are more likely to face economic insecurity due in large part to the [legacy](#) of racist policies and practices, together with discrimination that continues today.** For generations, these barriers have cut many families of color off from [opportunity](#), limiting economic [mobility](#). For example:
 - [Racist housing policies and practices](#), such as discriminatory city zoning ordinances, [redlining](#), and racially restrictive covenants, fostered racially segregated neighborhoods.
 - [Discriminatory practices](#) that preserve racial segregation [continue today](#). This includes ostensibly “race-neutral” exclusionary zoning practices that, in effect, continue to confine many families of color to economically distressed areas where [opportunity](#) is limited. For instance, these [neighborhoods](#) typically provide limited access to quality schools and jobs.



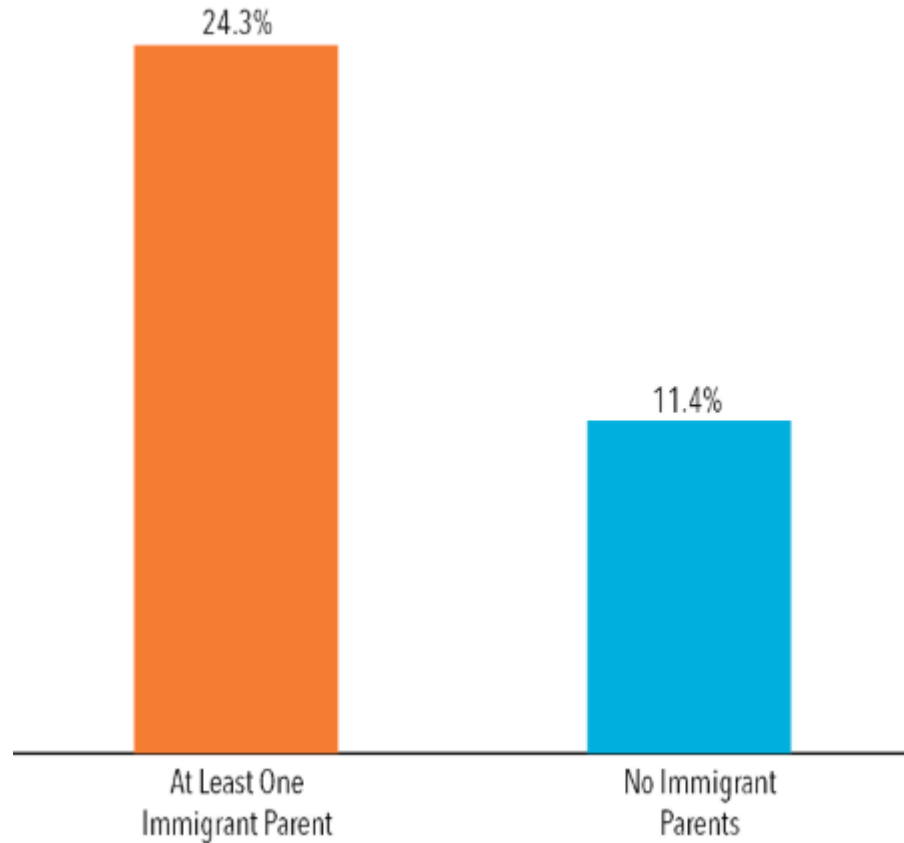
More Than 8 in 10 California Children in Poverty Live in Working Families

Percentage of California Children in Poverty Based on the California Poverty Measure, 2017



Among Working Families, Children of Immigrants Are Far More Likely to Live in Poverty Than Other Children

Poverty Rate Based on the Supplemental Poverty Measure, 2015-17



Note: Working families are those with any earnings from work. Immigrant parents are those who were born outside of the US and US territories and were not born to US citizen parents.
Source: Budget Center analysis of US Census Bureau, Current Population Survey data



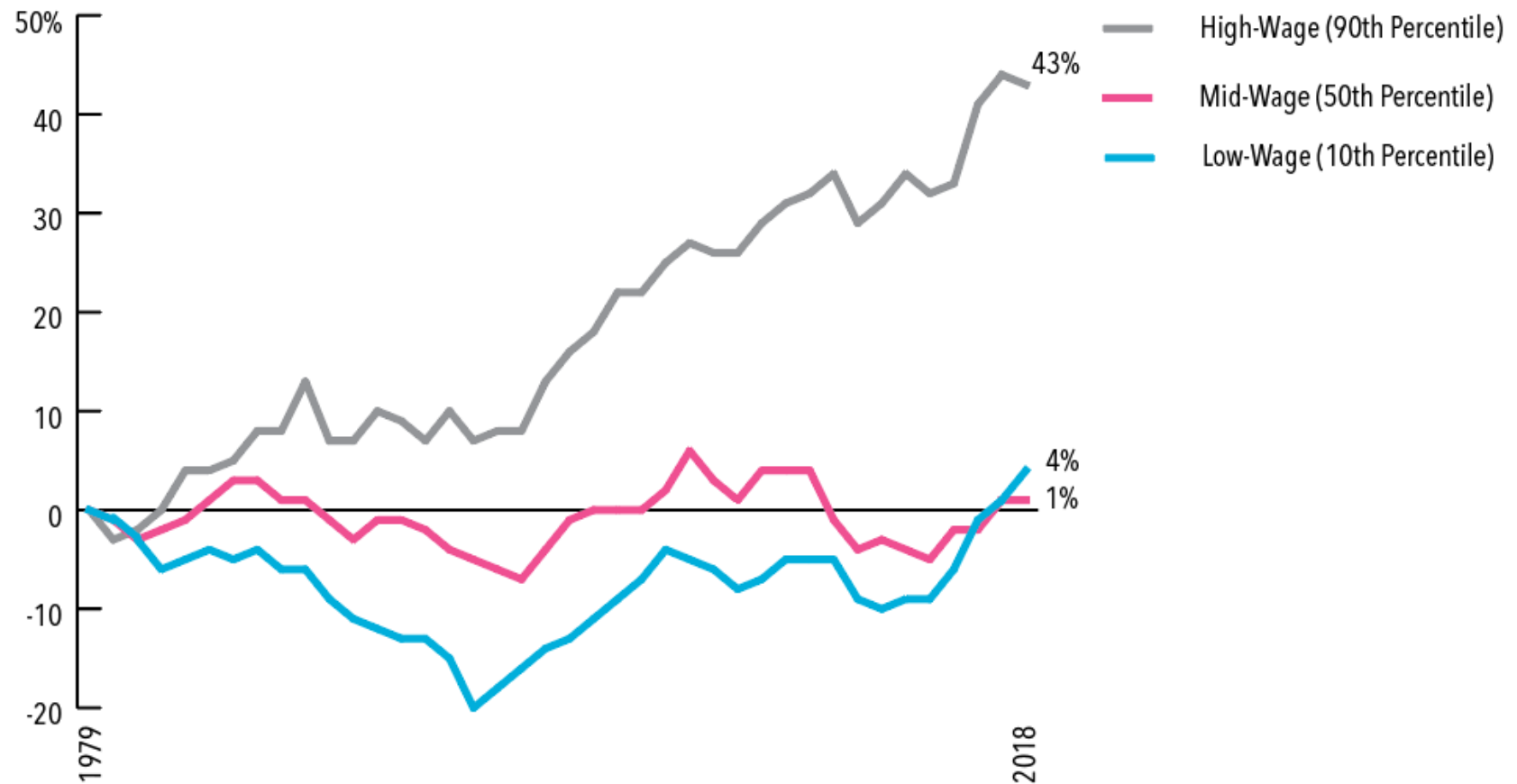
Poverty Among Children of Immigrants Reflects Low Pay, Exploitation, and Anti-Immigrant Policies

- **Californians who are immigrants work in occupations that are important to the state's economy and communities, yet they are typically paid low wages.** For example, in 2018:
 - The median hourly wage for Californians who are not US citizens was \$15.21 – only around 2/3 of that of US-born citizens (\$23.21).
 - The median hourly wage for California immigrants, which include naturalized US citizens, was \$18.66.
- **Immigrants tend to be paid less than they are owed and to be exploited in other ways by employers,** such as being illegally retaliated against for trying to improve working conditions.
- **In addition, the legacy of anti-immigration policies together with the "chilling effect" of current anti-immigrant proposals undermine immigrants' ability to achieve economic security.**



Wages for California's Low- and Mid-Wage Workers Have Stagnated for Decades

Percent Change in Inflation-Adjusted Hourly Wages, 1979 to 2018



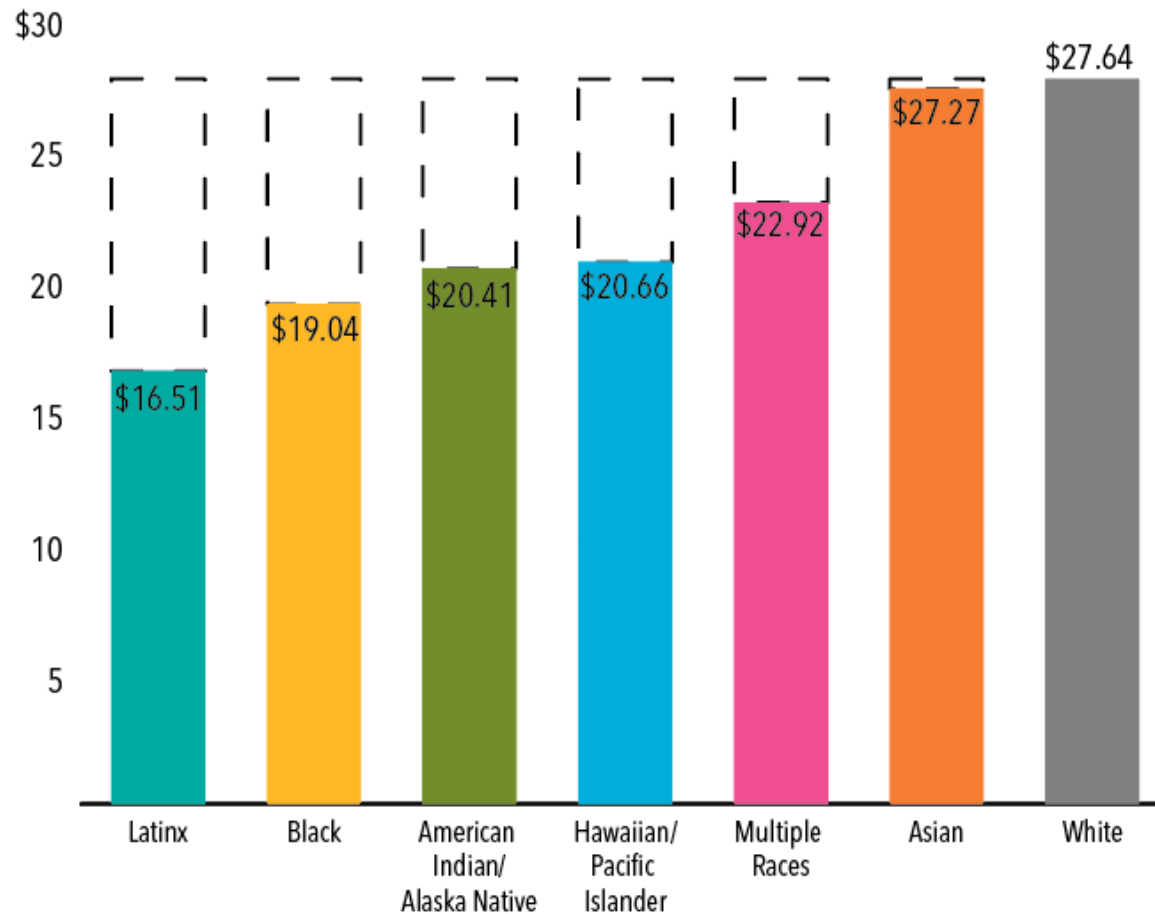
Note: Data reflect earnings for workers ages 25 to 64.

Source: Budget Center analysis of Economic Policy Institute's Current Population Survey extracts



Workers of Color Are Typically Paid Less Than White Workers

Median Hourly Wages for California Workers Ages 25 to 64, 2016-2018

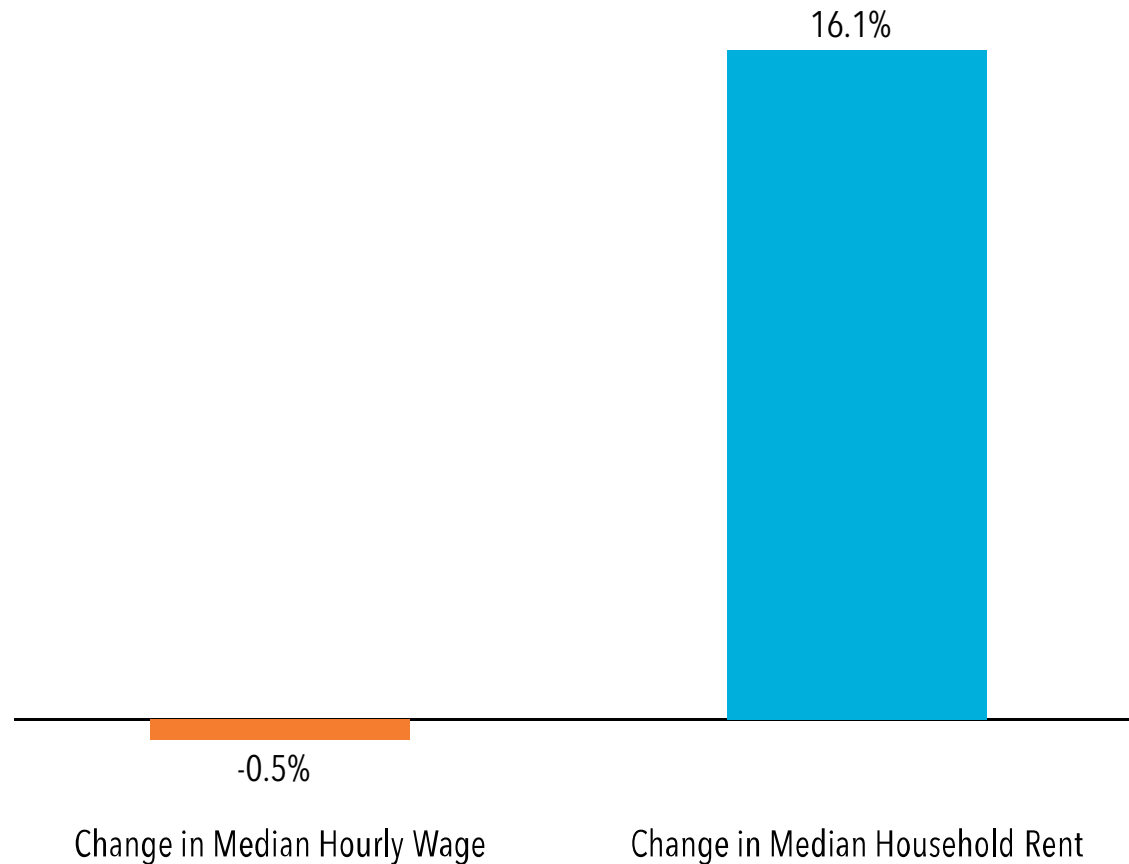


Note: Racial and ethnic groups are mutually exclusive. These figures provide only a preliminary understanding of disparities by race and ethnicity, as the data are not available or cannot be reported for all racial and ethnic groups.
Source: Budget Center analysis of Economic Policy Institute's Current Population Survey extracts



Rents in California Have Grown Far Faster Than Hourly Wages for Typical Workers

Percent Change in Inflation-Adjusted Median Rent and Median Hourly Wage, 2006 to 2017



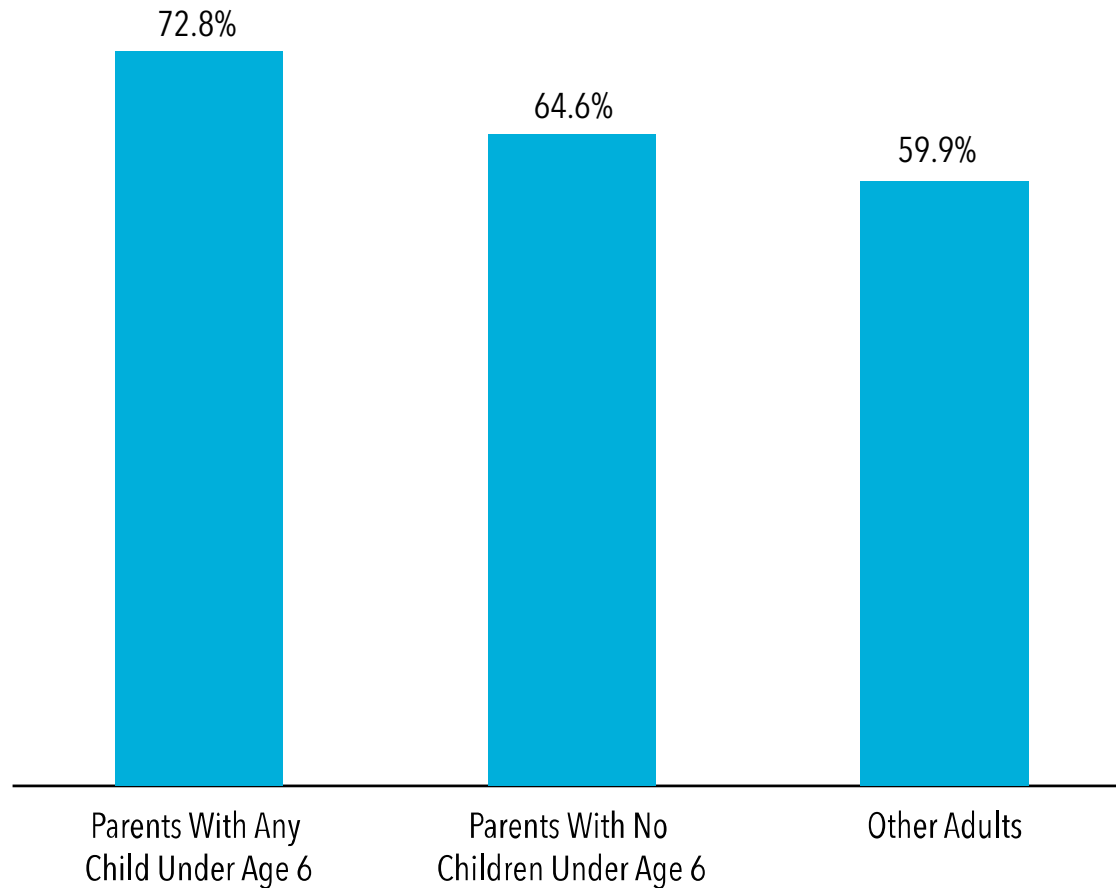
Note: Wage data reflect earnings for workers ages 25 to 64.

Source: Budget Center analysis of Economic Policy Institute's Current Population Survey extracts and US Census Bureau, American Community Survey data



The Majority of Low-Income Parents and Other Adults Experience Hardship

Percentage of US Adults With Incomes Below Twice the Poverty Line Who Experienced Hardship, 2017



Note: Poverty line is based on the Official Poverty Measure. Hardship includes the inability to afford housing, utilities, medical bills, or sufficient food in the past year. Adults are ages 18 to 64.
Source: Urban Institute



Boosting the Incomes of Workers Who Earn Little From Their Jobs Benefits Families, Children, and Communities



Public Investments That Boost Families' Incomes Can Help Children Succeed Over the Long Term

- **Growing up in a family that cannot afford to meet basic needs can have lasting, harmful effects on children.** The longer children spend in poverty:
 - The less likely they are to complete high school, attend college, and be consistently employed in early adulthood,
 - And the more likely they are to live in poverty as adults.
- **These negative, long-term effects are especially likely when children live in poverty:**
 - When they are very young, or
 - For more than half of their childhood.
- **Public investments that boost these families' incomes not only reduce financial hardship but can help children succeed over the long term,** according to a growing body of research.



Refundable Income Tax Credits Are Key Public Investments That Boost Families' Incomes

- **Refundable income tax credits reduce the amount of income tax families owe based on:**
 - How much they earn from work and
 - How many qualifying children they live with.
- **Families who qualify for a credit that is more than the amount of income tax they owe can receive the balance as a tax refund.** This means that families who do not owe *any* income tax can get the full credit that they qualify for as a refund.



Income Tax Credits Must Be Refundable to Benefit Families With Very Low Incomes

- **Only refundable income tax credits benefit families with very low incomes.** This is because these families typically do not owe any state or federal income tax. (Although they do pay other taxes, including payroll taxes and the sales tax. In fact, they pay a [larger share](#) of their income in state and local taxes than most Californians.)
- **Non-refundable credits only reduce the amount of income tax families owe and therefore do not benefit families with very low incomes who owe no income tax.**



California Has Two Refundable Income Tax Credits That Build on Two Federal Income Tax Credits

- **Two refundable California income tax credits boost the incomes of people who earn little from their jobs, helping them to afford necessities.** These are:
 - The **California Earned Income Tax Credit (CalEITC)** – available to families and individuals with annual earnings under \$30,000; and
 - The **Young Child Tax Credit** – available to CalEITC-eligible families with children under age 6.
- **Many who qualify for these state credits also qualify for:**
 - The federal **Earned Income Tax Credit (EITC)** – a refundable credit available to families and individuals with low or moderate earnings from work; and
 - The federal **Child Tax Credit (CTC)** – a partially refundable credit available to families with children under age 17 who have low, moderate, or high earnings from work.



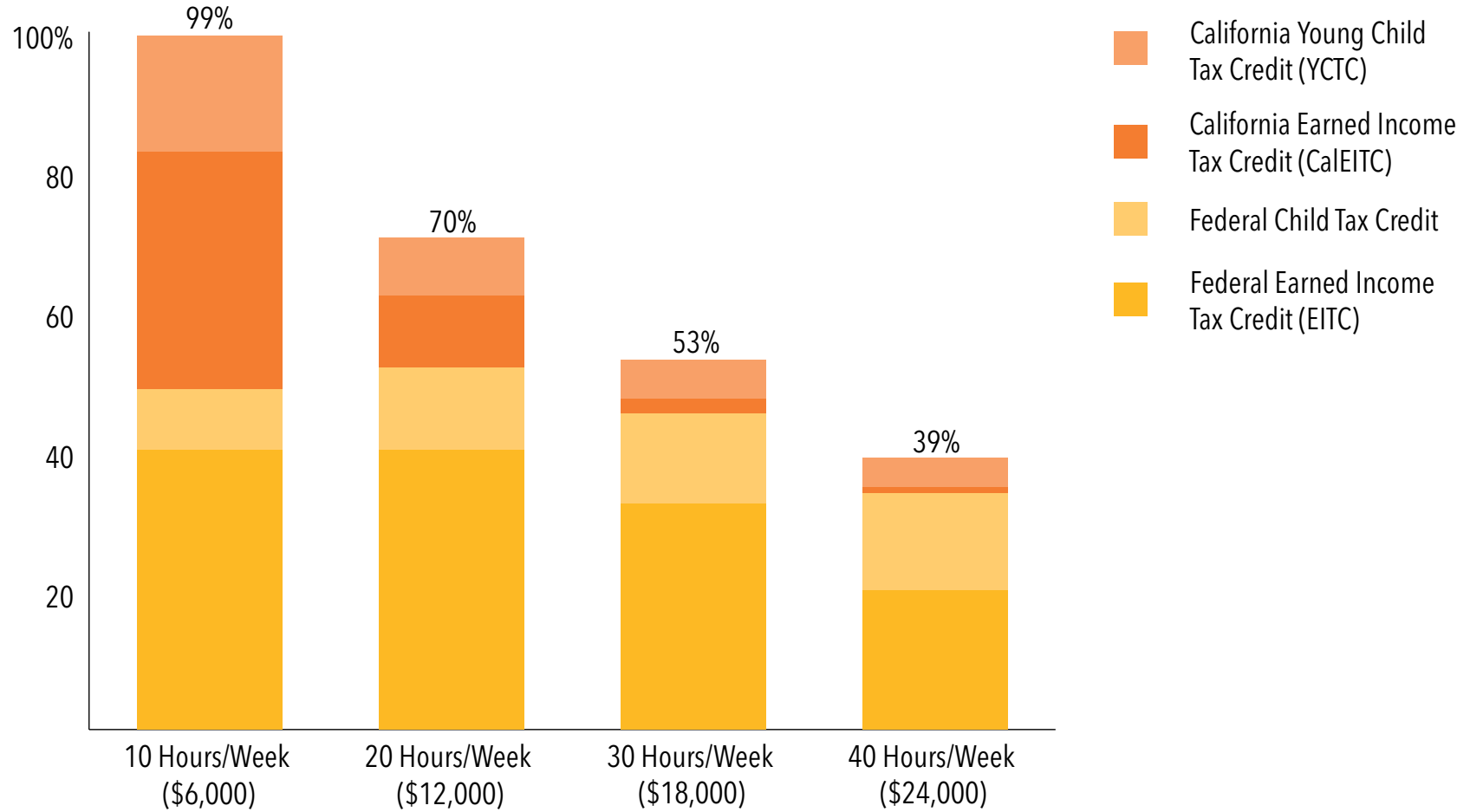
The CalEITC and Young Child Credit, Together With Federal Credits, Significantly Boost Families' Incomes

- **The CalEITC, Young Child Tax Credit (YCTC), federal EITC, and federal CTC combined can significantly boost the incomes of families who qualify for all four credits.** For example:
 - A mother of two children, ages 4 and 7, who works part-time at California's minimum wage would earn \$12,000 annually and receive:
 - \$1,222 from the CalEITC and \$1,000 from the YCTC; and
 - \$4,800 from the federal EITC and \$1,425 from the CTC.
 - **These four credits combined would boost this family's income by 70%.**
 - If the mother earned \$6,000 annually, these credits would **boost her income by 99%**. If she earned \$18,000, they would increase her income by 53%. And if she earned \$24,000, they would raise her income by 39%.



The CalEITC & Young Child Tax Credit, Together With Federal Credits, Significantly Boost Working Families' Incomes

Percent Increase in After-Tax Income for a Parent With Two Children, Tax Year 2019



Note: Assumes parent earns \$12 per hour and works 50 weeks of the year. Also assumes at least one child is under age 6 and qualifies for the YCTC.

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 Tax Credits Reduce Poverty Among Families With Low Earnings From Work

- **The federal EITC, together with the federal Child Tax Credit, lifts more US children out of [poverty](#) than any other federal program.** In California, these two credits lifted nearly 1.3 million people – including 643,000 children – out of poverty each year, on average, between 2015 and 2017, according to a Center on Budget and Policy Priorities analysis based on the [Supplemental Poverty Measure](#).
- **The federal EITC cuts poverty directly and indirectly.** It does so *directly* by providing a tax refund that boosts families' incomes, and *indirectly* by providing an incentive for families to seek work, which boosts their incomes by increasing their work earnings. These effects together [substantially cut](#) poverty.
- **State EITCs further [reduce poverty](#), particularly among children, by building on the federal EITC.** Larger state credits do more to reduce poverty than smaller state credits.



Earned Income Tax Credits Are Linked to Better Health for Families and Communities

- **The federal and state EITCs may improve the health of [mothers, babies](#), and even entire [neighborhoods](#).** Most notably, [multiple studies](#) have linked these credits to [reductions](#) in low-birth-weight infants. Birth weight is a key [predictor](#) of health and economic well-being in adulthood. One [study](#) linked state and local EITC expansions to a reduction in low-birth-weight babies that were *neighborhood-wide* in low-income areas of New York City, not just among families directly benefiting from the credits.
- **These credits could also help to advance health equity.** Studies link the [federal](#) and [state](#) EITCs to significantly greater reductions in the likelihood of having a low-birth-weight baby for black mothers, for whom rates of low birth weight are much higher.



The CDC Considers the Federal EITC a “Non-Clinical Intervention” That Can Improve Community Health

Centers for Disease Control and Prevention:
The EITC can improve living conditions associated with poor health.



Centers for Disease Control and Prevention
CDC 24/7: Saving Lives, Protecting People™

Earned Income Tax Credits



**Improve the health of working people
by increasing their income**



Increased Educational Attainment and Future Earnings for Children With Income Tax Credits

- **For children, income tax credits may lead to:**
 - **Improved school achievement –**
 - The [federal EITC](#) and [CTC](#) have been linked to higher test scores for students
 - **Higher educational attainment –**
 - The federal EITC is also associated with greater [high school completion](#) and [college attendance](#)
 - **Increased employment and earnings –**
 - The [federal EITC](#) may also lead to higher employment rates and earnings as adults



Boosting Low-Income Families' Incomes Can Improve Children's Life Chances



For each **\$3,000 a year** in added income that children in low-income families received before age 6...

...their **annual earnings** between ages 25 and 37 **increased by 17%.**

The Well-Documented Benefits of the Federal EITC Likely Extend to the CalEITC and YCTC

- **Most research on working-family tax credits focuses on the *federal EITC*.** Research on the federal CTC and state EITCs and CTCs is more limited.
- **However, the CalEITC and Young Child Tax Credit (YCTC) (as well as the federal CTC) likely produce similar benefits as the *federal EITC*** since these credits boost the incomes of families with low earnings from work just like the federal EITC.
- **This suggests that California's credits amplify the benefits of the *federal EITC*.** Nearly every family who qualifies for the CalEITC or YCTC also qualifies for the federal EITC, as well as the federal CTC. Altogether these credits boost families' incomes more than the federal EITC alone, doing more to reduce poverty and potentially more to improve children's outcomes than the federal EITC would do on its own.



Who Benefits From the CalEITC and Young Child Tax Credit?



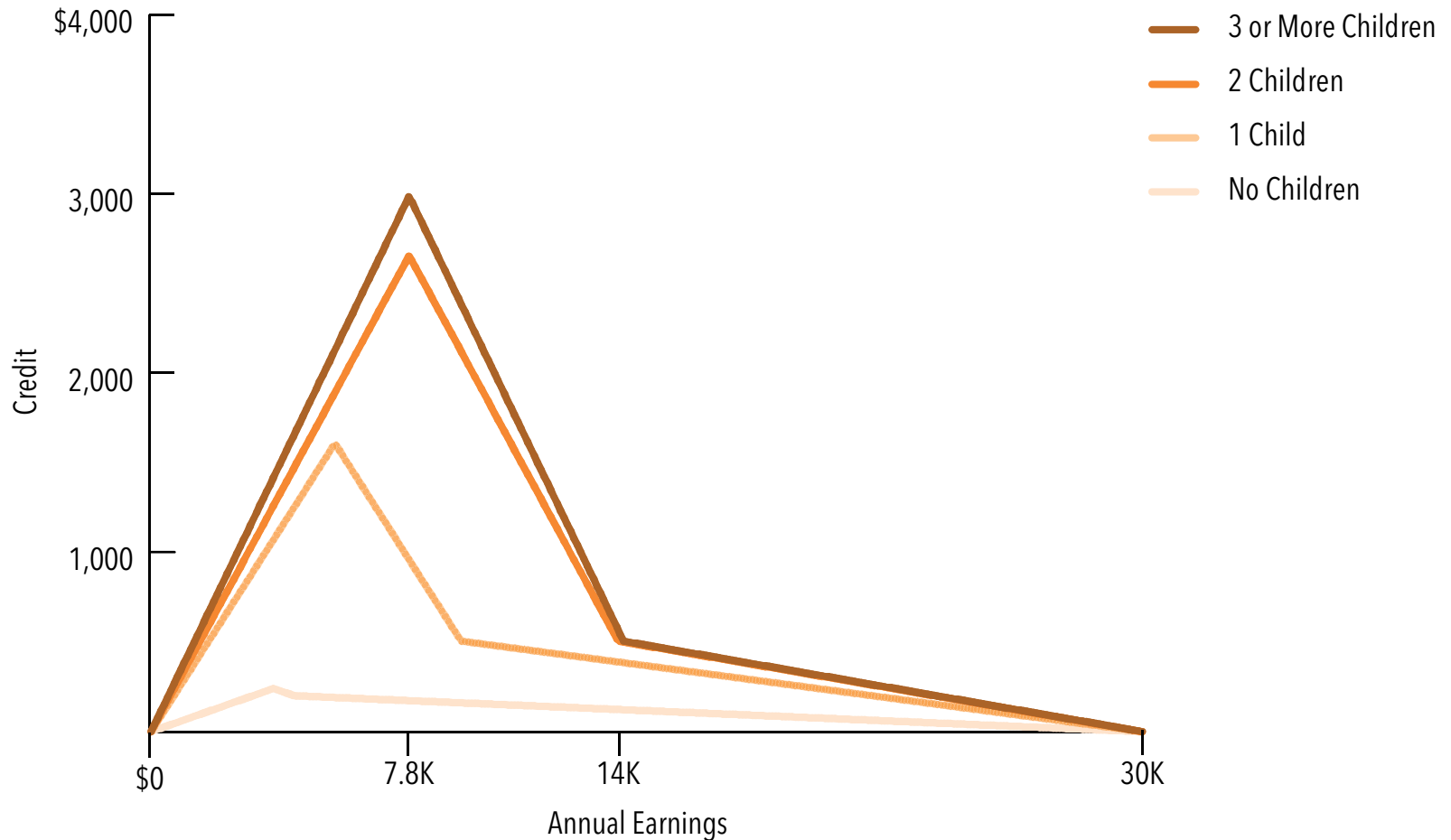
Workers Earning Less Than \$30,000 May Qualify for the CalEITC and Young Child Tax Credit

- **Many families and individuals earning less than \$30,000 annually qualify for the CalEITC.**
 - The size of the credit depends on how much families or individuals earn and how many children they live with.
 - Generally, people with lower earnings qualify for larger credits, as do people with more children.
- **CalEITC-eligible families may also qualify for the Young Child Tax Credit if they live with at least one child under age 6.**
 - The Young Child Tax Credit provides a \$1,000 credit to each qualifying family with earnings under \$25,000, and a credit of less than \$1,000 to each qualifying family with earnings between \$25,000 and \$30,000.



Many Families and Individuals With Annual Earnings Under \$30,000 Qualify for the CalEITC

CalEITC, Tax Year 2019



Workers With Children and Very Low Earnings Qualify for the Largest Credits From the CalEITC

CalEITC Eligibility and Credit Size, Tax Year 2019

Number of Qualifying Children	Maximum Credit	Annual Earnings to Qualify for Maximum Credit*	Annual Earnings to Qualify for Credit of at Least \$1,000*
0	\$240	\$3,691	N/A
1	\$1,605	\$5,554	\$3,460-\$7,647
2	\$2,651	\$7,797	\$2,941-\$12,653
3+	\$2,982	\$7,796	\$2,614-\$12,987

* Earnings levels are estimates.

Note: Qualifying children must 1) live with the tax filer for more than half of the year in the US; 2) be under age 19, or under age 24 and enrolled in school full-time for at least five months of the year, or any age if permanently and totally disabled; and 3) have a Social Security Number that is valid for work.

Source: Franchise Tax Board and Budget Center analysis of Section 17052 of California's Revenue and Taxation Code



CalEITC-Eligible Workers With Children Under Age 6 Can Qualify for Up to \$1,000 From the YCTC

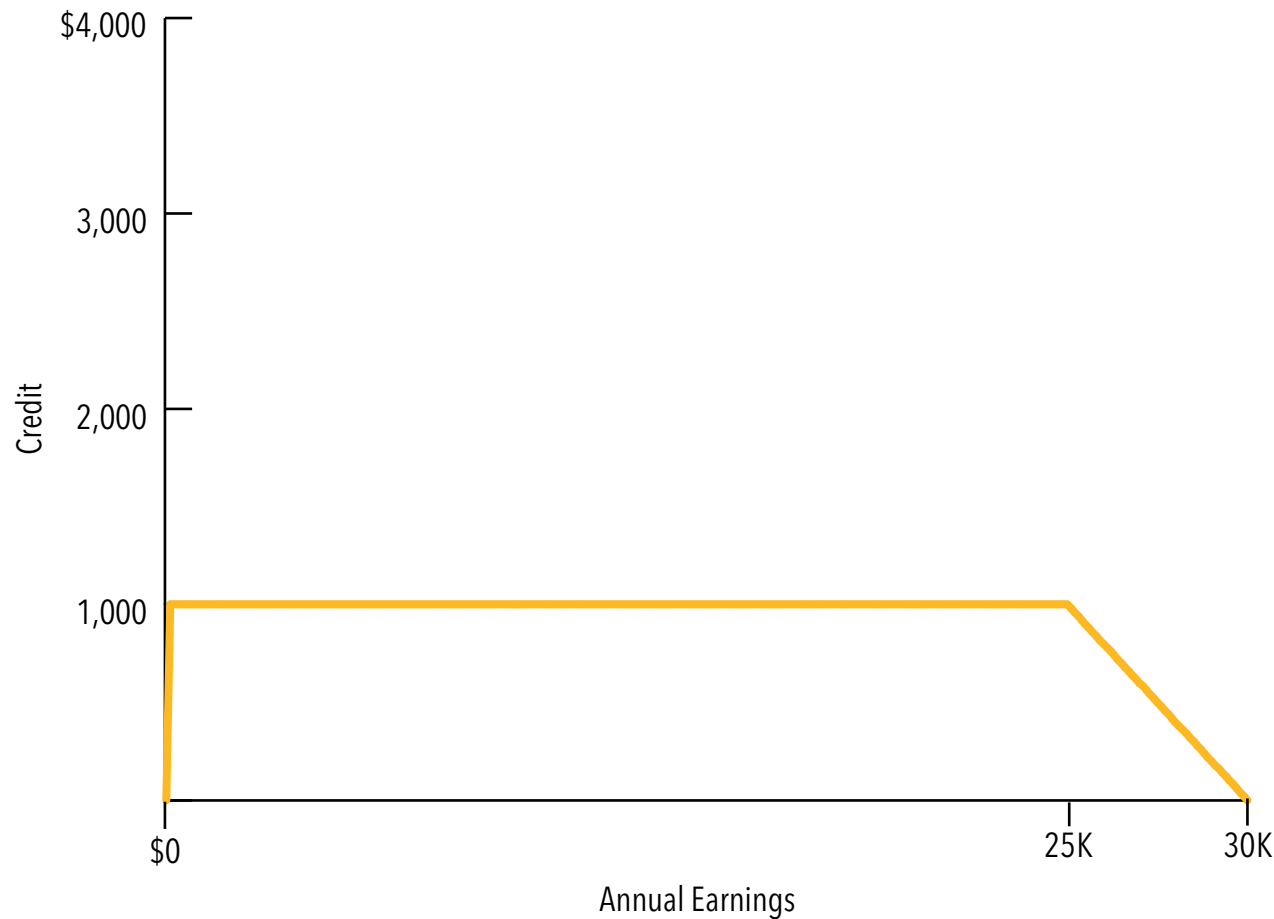
Young Child Tax Credit (YCTC) Eligibility and Credit Size, Tax Year 2019

Number of Qualifying Children	Maximum Credit	Annual Earnings to Qualify for Maximum Credit
1	\$1,000	\$1 to \$25,000*
2	\$1,000	\$1 to \$25,000*
3+	\$1,000	\$1 to \$25,000*

* Families with earnings between \$25,000 and \$30,000 can qualify for a YCTC of less than \$1,000.

CalEITC-Eligible Families With at Least One Child Under Age 6 Can Qualify for the Young Child Tax Credit (YCTC)

YCTC, Parents With at Least One Qualifying Child Under Age 6, Tax Year 2019



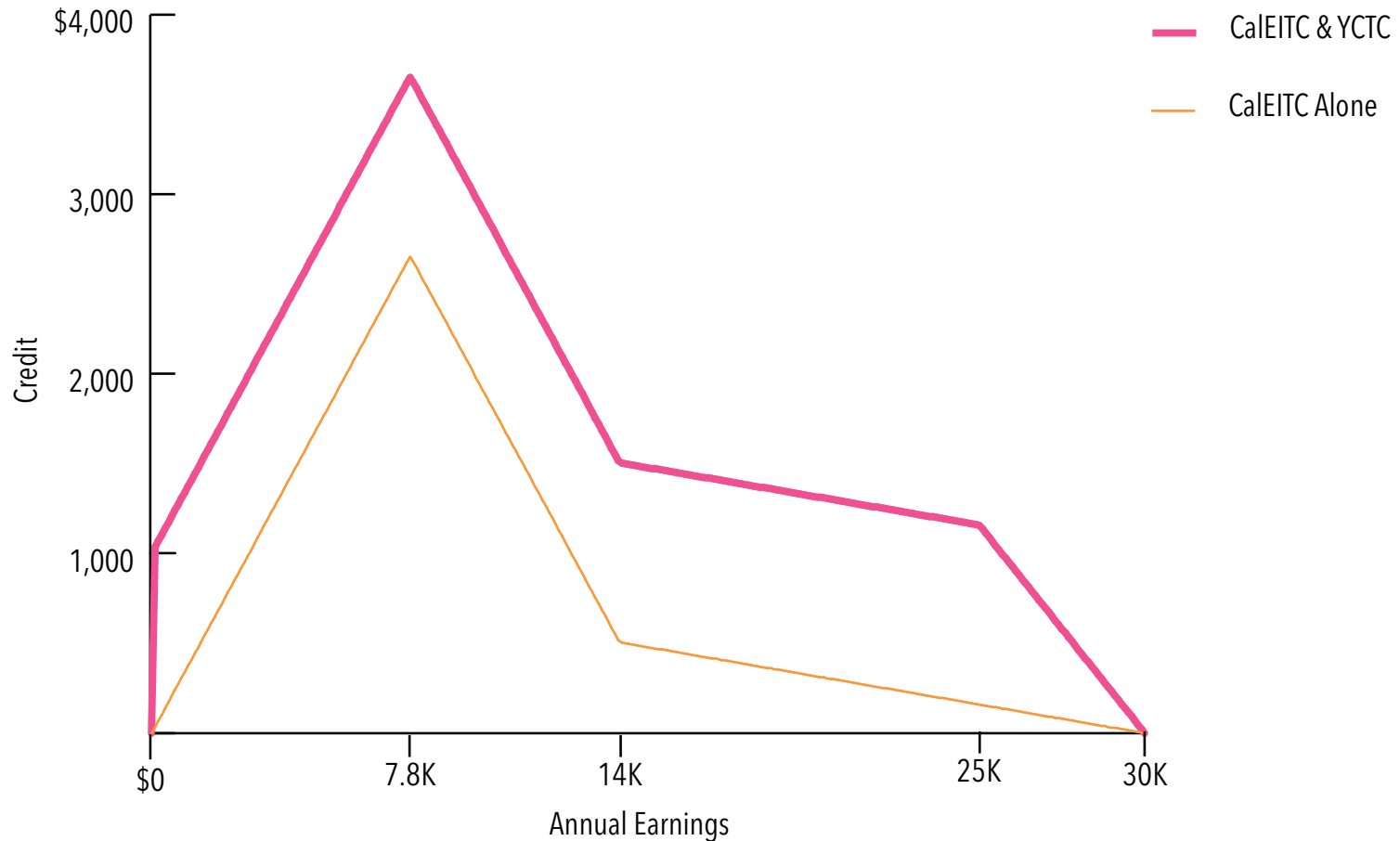
Note: The Young Child Tax Credit is available to claim for the first time in tax year 2019, for which people file in 2020.

Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code



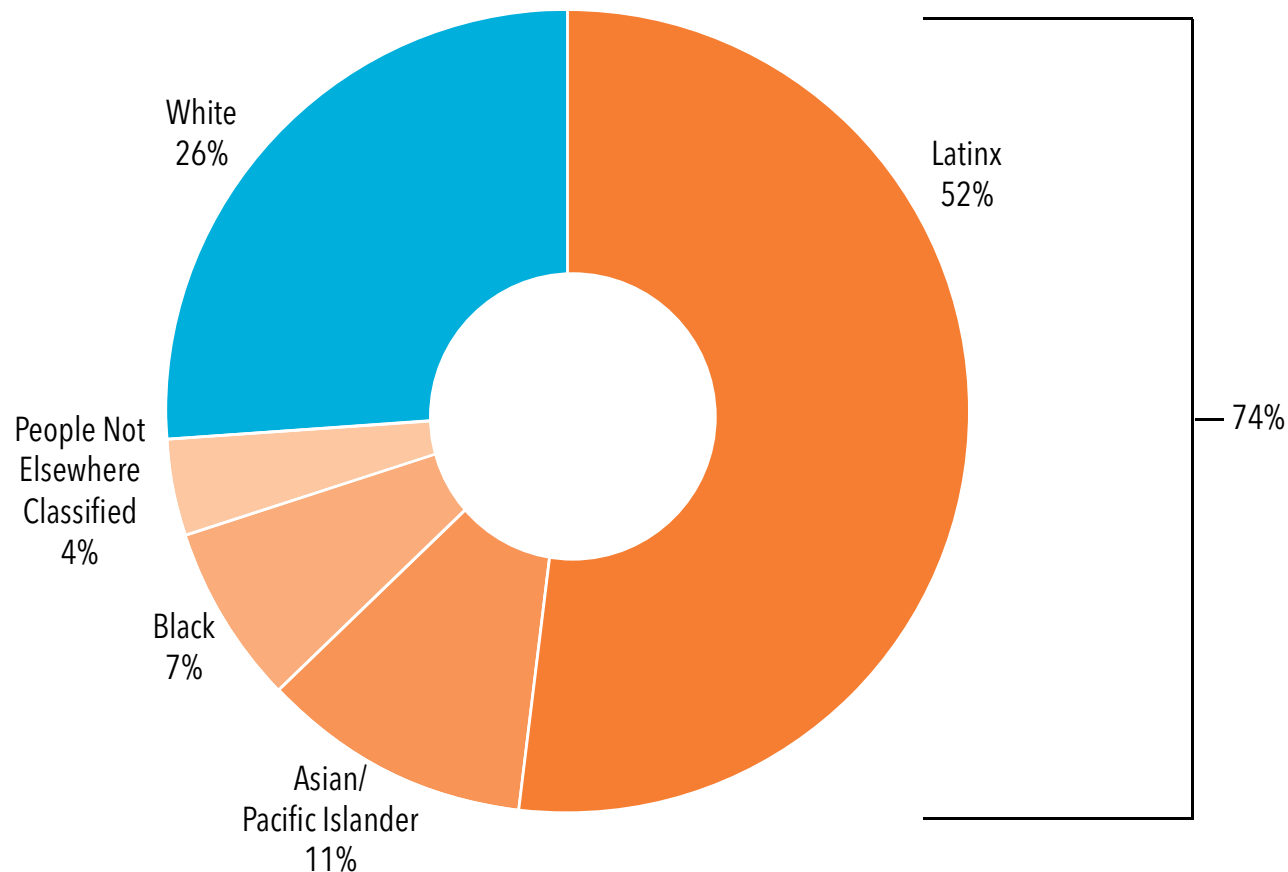
The CalEITC & Young Child Tax Credit (YCTC) Combined Provide Large Credits to Families With Young Children

CalEITC & YCTC, Parents With Two Qualifying Children, at Least One Under Age 6, Tax Year 2019



Nearly 3 in 4 Californians Who Are Eligible to Benefit From the CalEITC Are People of Color

Race/Ethnicity of Filers and Dependents Eligible for the CalEITC, Tax Year 2019



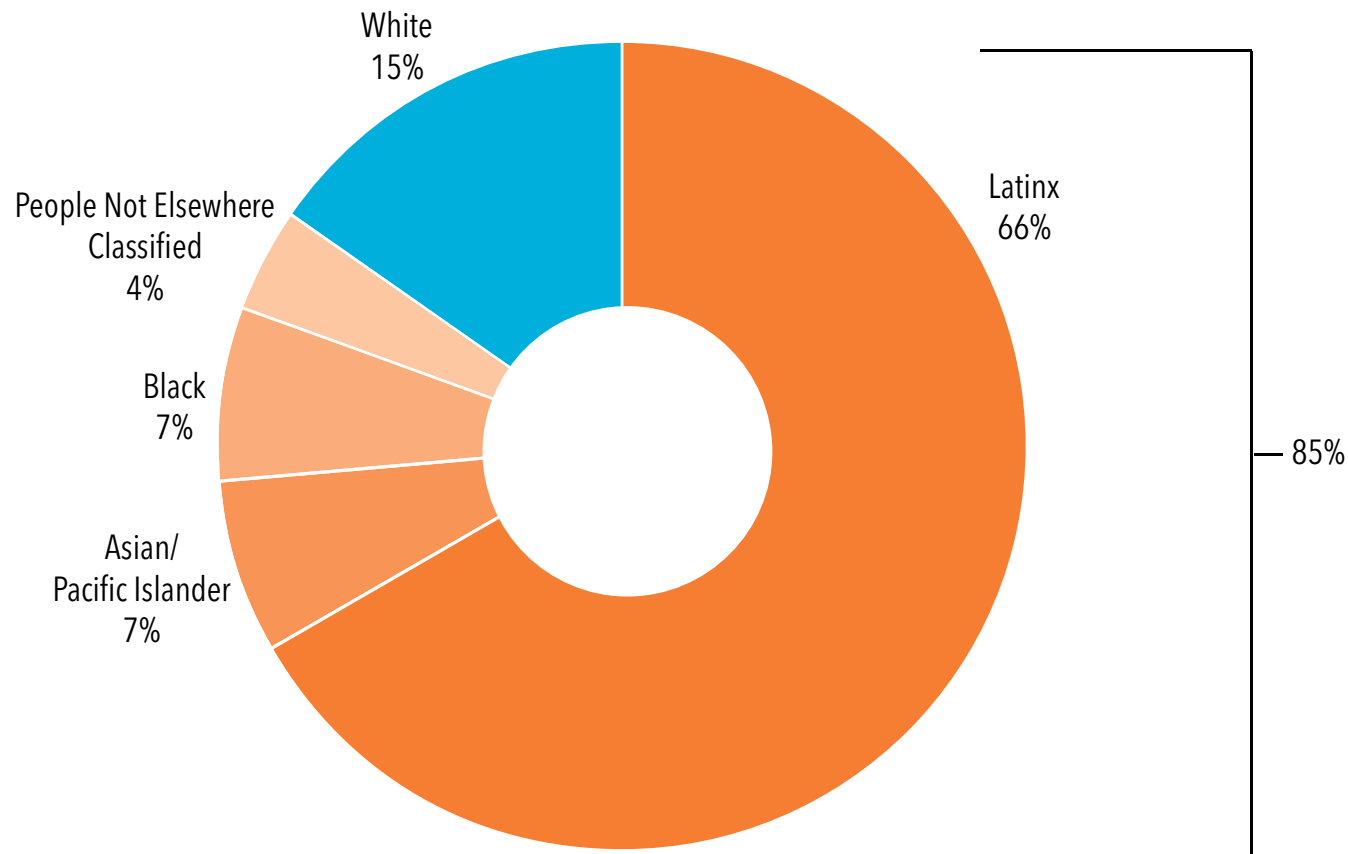
Note: Due to data limitations, people who are not identified as Asian/Pacific Islander, Black, Latinx, or white were grouped together. Analysis uses an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California. Based on CalEITC parameters in tax year 2019, modeled using 2017 population data.

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



More Than 8 in 10 Californians Who Are Eligible to Benefit From the Young Child Tax Credit Are People of Color

Race/Ethnicity of Filers & Dependents Eligible for the Young Child Tax Credit, Tax Year 2019



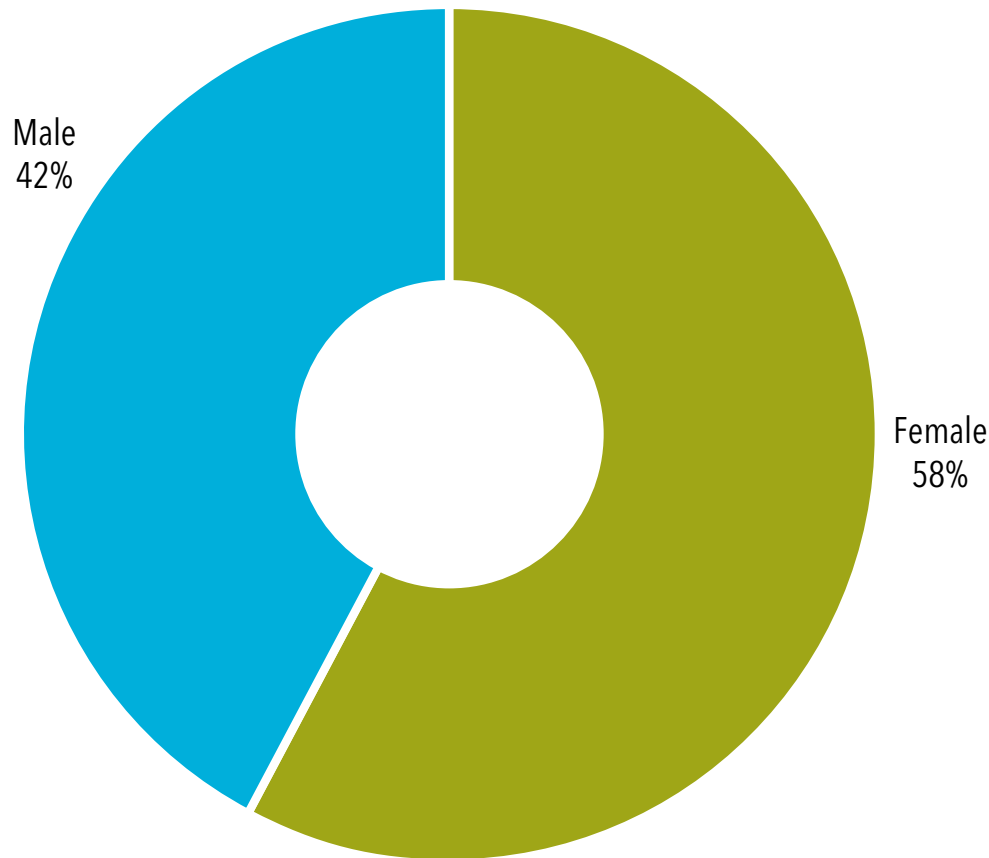
Note: Due to data limitations, people who are not identified as Asian/Pacific Islander, Black, Latinx, or white were grouped together. Analysis uses an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California. Based on CalEITC parameters as of tax year 2019, modeled using 2017 population data.

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



Women Make Up the Majority of Tax Filers Who Are Eligible to Benefit From the Young Child Tax Credit

Sex of Tax Filers Eligible for the Young Child Tax Credit, Tax Year 2019



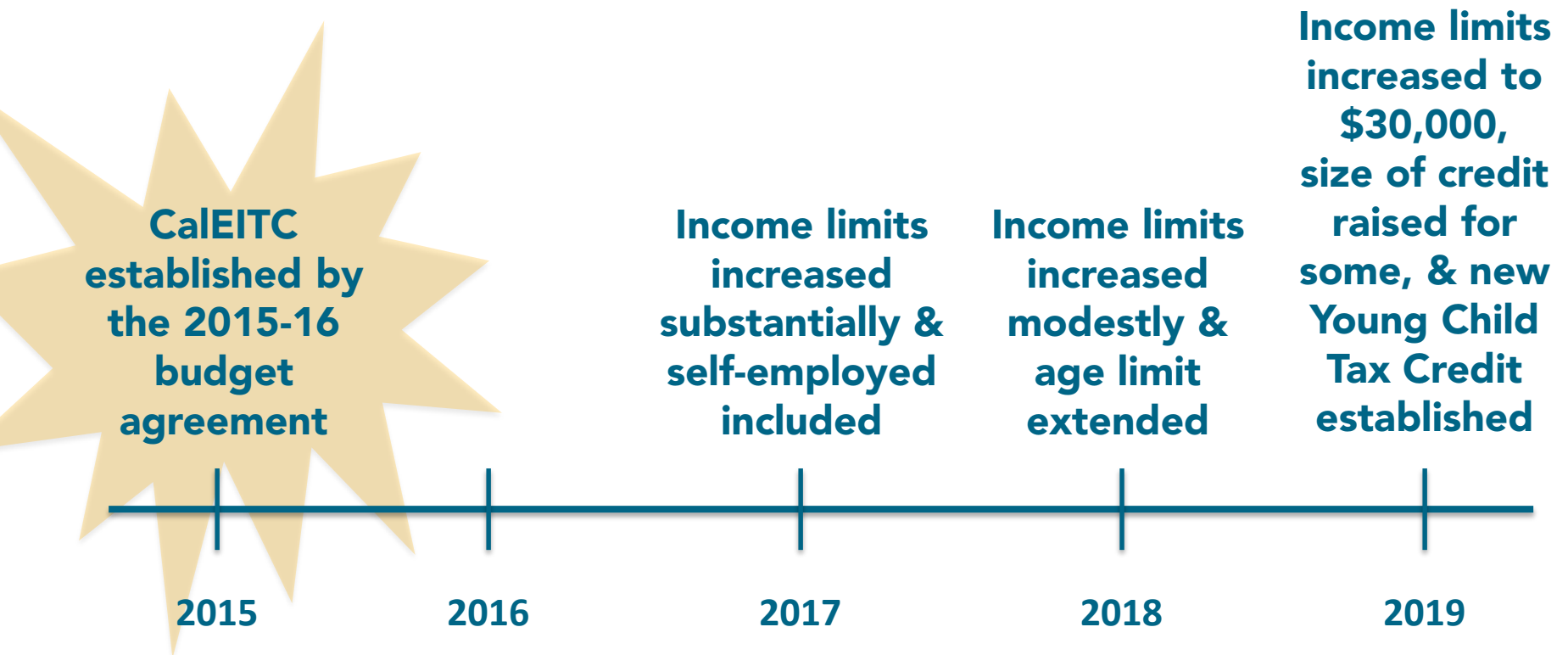
Note: Analysis uses an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California. Based on CalEITC parameters as of tax year 2019, modeled using 2017 population data. Source: Budget Center analysis of US Census Bureau, American Community Survey data



California Has Significantly Strengthened the CalEITC Since 2015



California Has Significantly Strengthened the CalEITC Since 2015, When the Credit Was Created



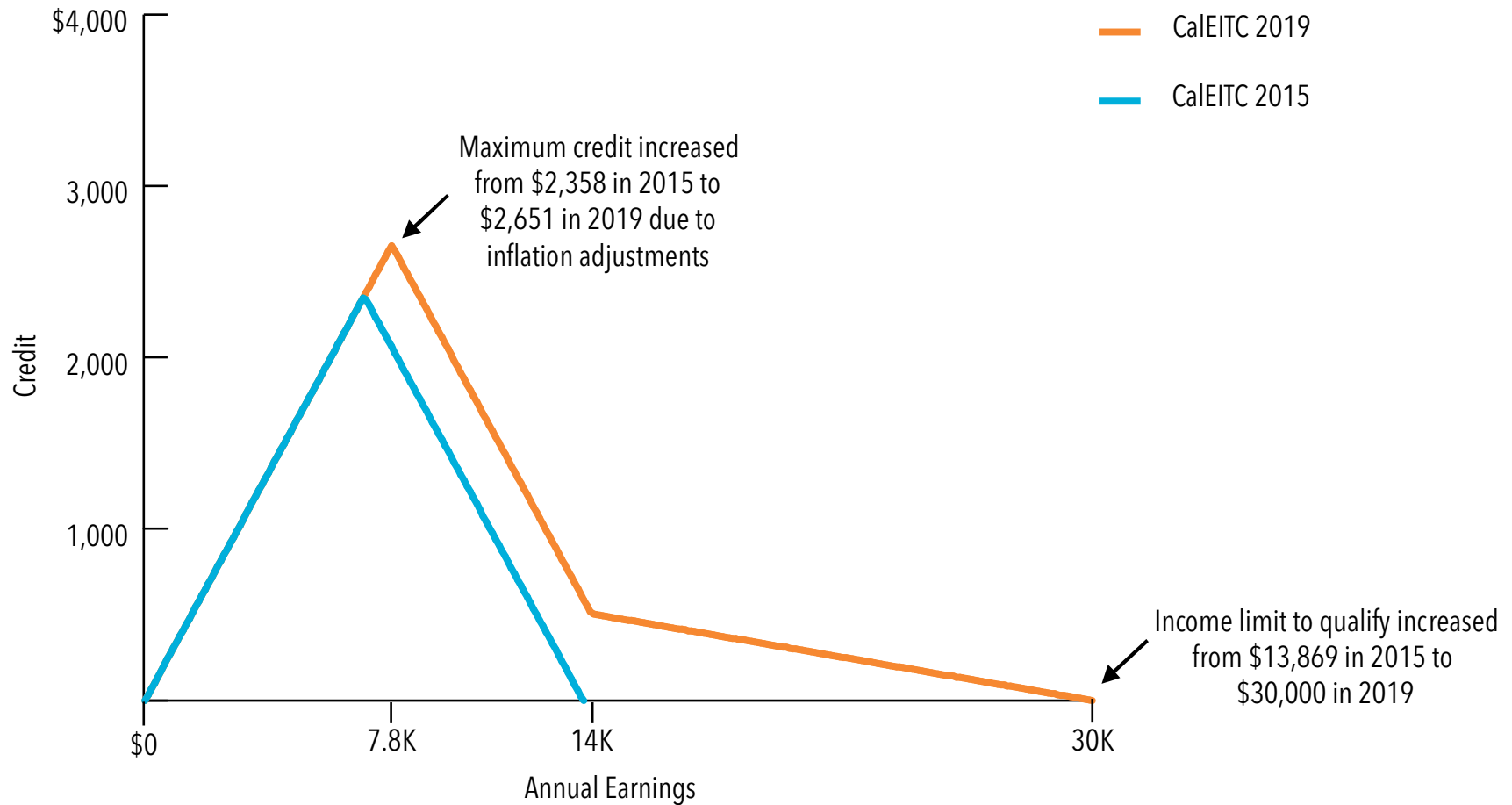
Improvements to the CalEITC Have Broadened the Credit's Reach

- Improvements to the CalEITC mean that:
 - **Workers earning up to \$30,000 annually can qualify.** (Initially, workers had to earn less than about \$10,000-\$14,000 if they lived with children & less than about \$7,000 if they did not.)
 - **Self-employed workers can qualify.** (These workers were originally excluded from the credit.)
 - **Workers ages 18 to 24 and 65 or older who are not living with children can qualify.** (These workers were originally excluded from the credit and continue to be excluded from the *federal* EITC.)
 - **CalEITC-eligible families who have at least one child under age 6 can get an additional Young Child Tax Credit.**



California More Than Doubled the Income Limit to Qualify for the CalEITC for Families With Children

CalEITC for Parents With Two Qualifying Children, Tax Years 2015 and 2019

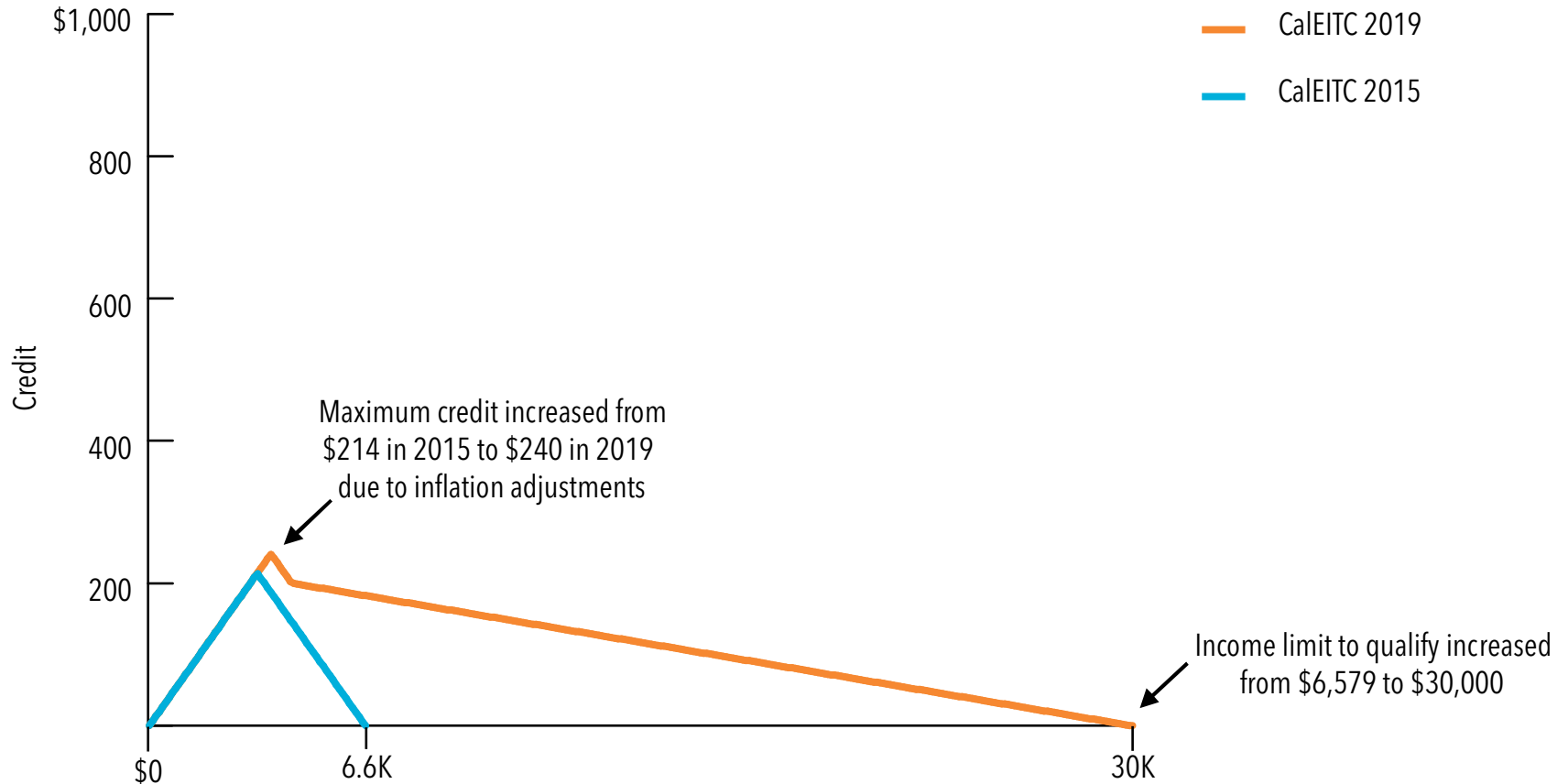


Note: The income limit was increased from \$13,869 to \$30,000 for parents with three or more qualifying children and from \$9,879 to \$30,000 for parents with one qualifying child.
Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code



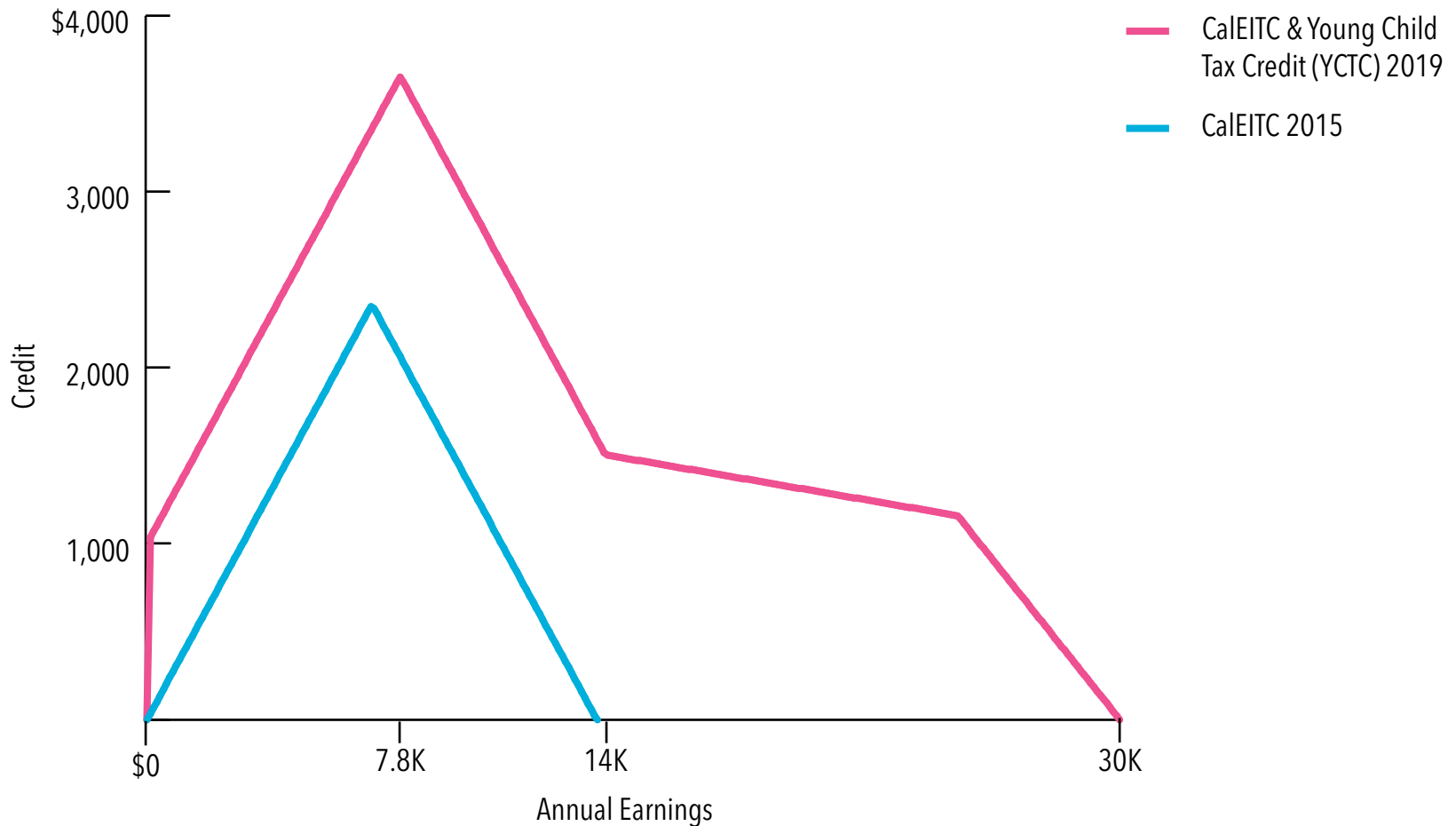
California Increased the Income Limit More Than Fourfold for Individuals to Qualify for the CalEITC

CalEITC for Workers Without Qualifying Children, Tax Years 2015 and 2019



The CalEITC & YCTC Boost the Incomes of Families With Young Children Far More Than the Original CalEITC

Credits for Parents With Two Qualifying Children and at Least One Under Age 6

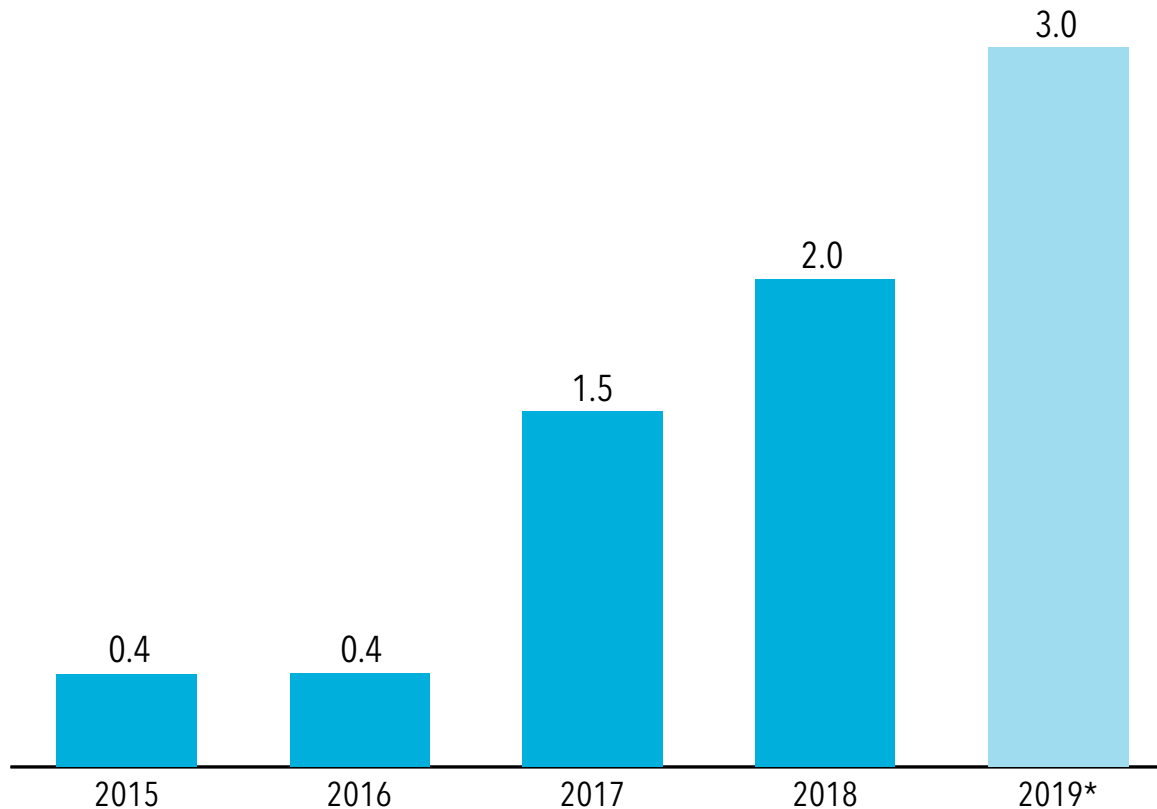


Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code



CalEITC Claims Reached 2 Million in 2018, Projected to Reach 3 Million in 2019

CalEITC Claims in Millions by Tax Year



* Projected.

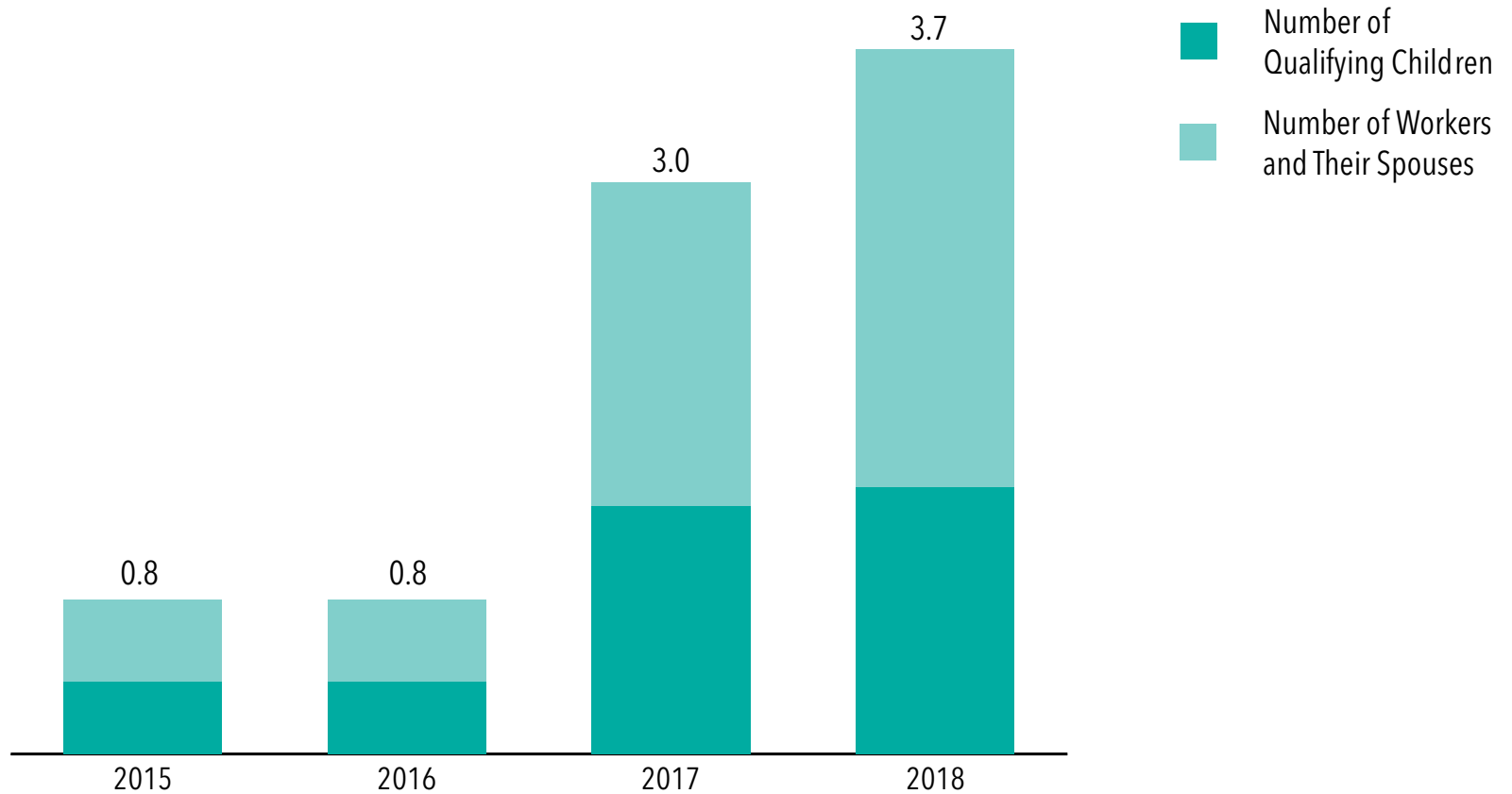
Note: "Claims" refer to the total number of "tax units" that claimed the credit. Tax units include the tax filer, along with the filer's spouse, if married, and any dependents the filer claims. This means that a tax unit can be comprised of just one unmarried tax filer with no dependents, or a group of people, such as a tax filer, her spouse, and her three dependent children.

Source: Franchise Tax Board



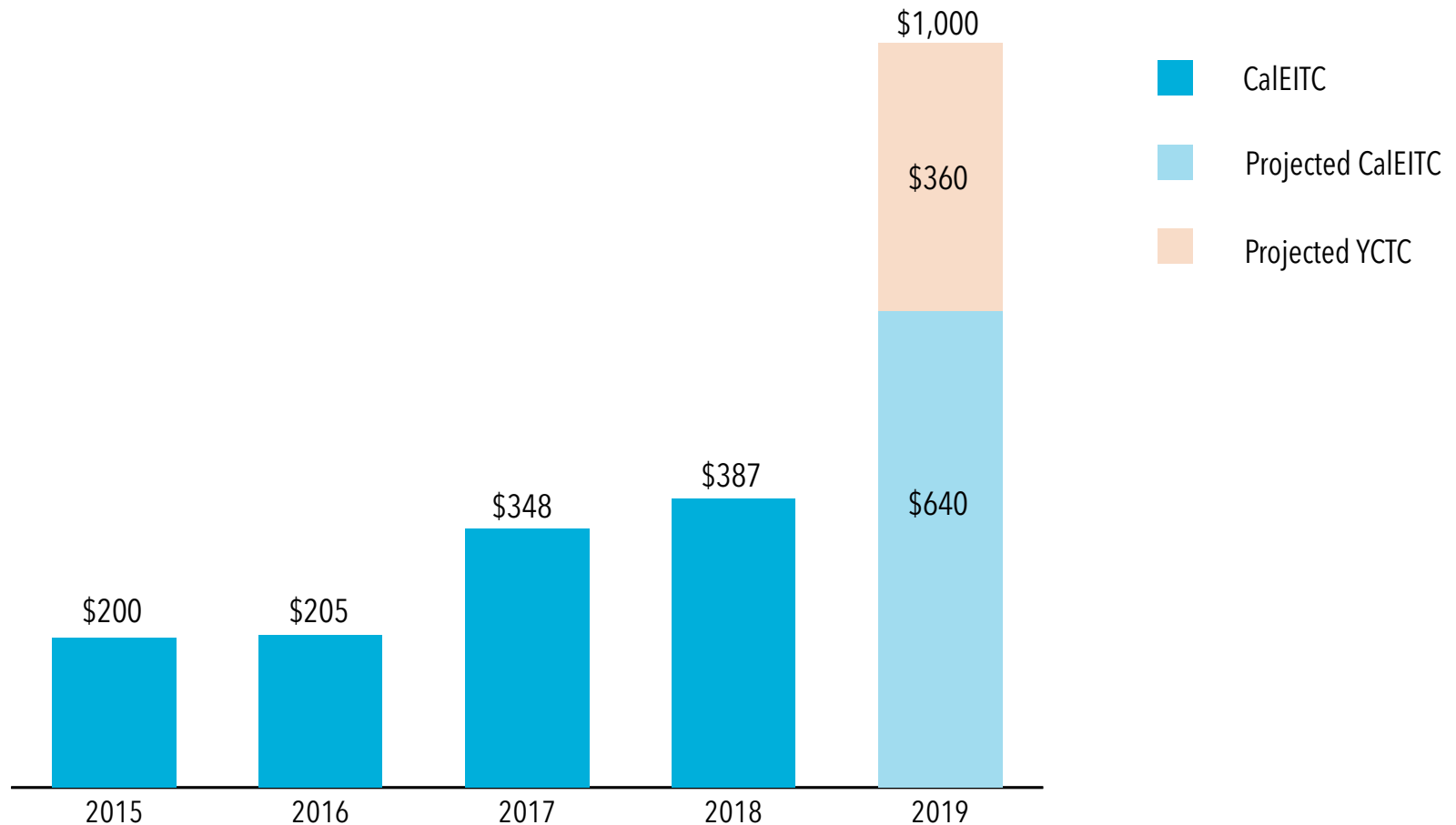
The Number of People Directly Benefiting From the CalEITC More Than Quadrupled to 3.7 Million in Tax Year 2018

Number of People in Tax Units That Claimed the CalEITC, in Millions by Tax Year



CalEITC Benefits Increased Between 2015 & 2018 and Are Projected to Reach \$1 Billion, Together With the YCTC, in 2019

Total Annual CalEITC and Young Child Tax Credit (YCTC) Benefits in Millions by Tax Year



* Projected
Source: Franchise Tax Board



The Maximum CalEITC Has Increased, While the Average Credit Has Declined

- **The maximum CalEITC increased by about 13% between 2015 and 2019**, due to annual inflation adjustments. This means that families and individuals with very low earnings, who qualify for the maximum CalEITC, have seen their credit increase modestly.
- **The average CalEITC has declined because California extended the credit to a large number of workers who qualify for relatively small credits.** As discussed previously, California increased the income limit to qualify for the CalEITC, which extended the credit to many more workers. However, these workers qualified for relatively small credits. The addition of many newly eligible workers qualifying for small credits caused the average CalEITC to fall.



The Average CalEITC Has Declined Because Many Newly Eligible Workers Qualify for Small Credits

Average CalEITC, Tax Years 2015 to 2018

Number of Qualifying Children	Average CalEITC				Percent Change
	2015	2016	2017	2018	2015 to 2018
0	\$111	\$118	\$76	\$72	-35%
1	\$611	\$614	\$267	\$255	-58%
2	\$981	\$1,008	\$474	\$452	-54%
3+	\$1,114	\$1,136	\$515	\$489	-56%
Total	\$519	\$531	\$236	\$191	-63%

Note: 2019 claims data will not be available until late 2020.
Source: Franchise Tax Board



How Does the CalEITC Compare to the Federal EITC and Other State EITCs?



California Designed the CalEITC and Young Child Tax Credit to Achieve State-Specific Priorities

- **The CalEITC and Young Child Tax Credit (YCTC) are similar to the federal EITC and CTC** in that these state credits boost the incomes of workers who earn little from their jobs, just like these federal credits.
- **However, the CalEITC and YCTC differ in key ways from the federal EITC and CTC.** This is because California has the ability to design state income tax credits to achieve California-specific policy priorities. For example, California:
 - Designed the CalEITC to provide the largest credits to families and individuals with very low incomes.
 - Expanded the CalEITC to complement the state's rising minimum wage.
 - Designed the YCTC to benefit families with low incomes and young children.



The CalEITC Is Modeled After the Federal EITC, but Differs From It in Several Ways

CalEITC and Federal EITC, Tax Year 2019

	CalEITC	Federal EITC
Maximum Credit	\$240 to \$2,982	\$529 to \$6,557
Annual Income to Qualify (Without Dependents)	\$1 to \$30,000	\$1 to \$21,370*
Annual Income to Qualify (With Dependents)	\$1 to \$30,000	\$1 to \$55,952**
Refundability	Fully refundable	Fully refundable
Age of Tax Filer Without Dependents	18 or older	25 to 64
Immigrant Eligibility	Qualifying children and tax filers must have SSNs that are valid for work	Qualifying children and tax filers must have SSNs that are valid for work

* For married-filing-jointly filers. Upper income limit is \$15,570 for single filers.

** For married-filing-jointly filers who have 3 or more qualifying children. Upper income limit is lower for head-of-household filers and those who have fewer qualifying children.

Note: "SSN" means Social Security Number. There is no age limit for tax filers with dependents.

Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code and Section 32 of Title 26 of the Internal Revenue Code



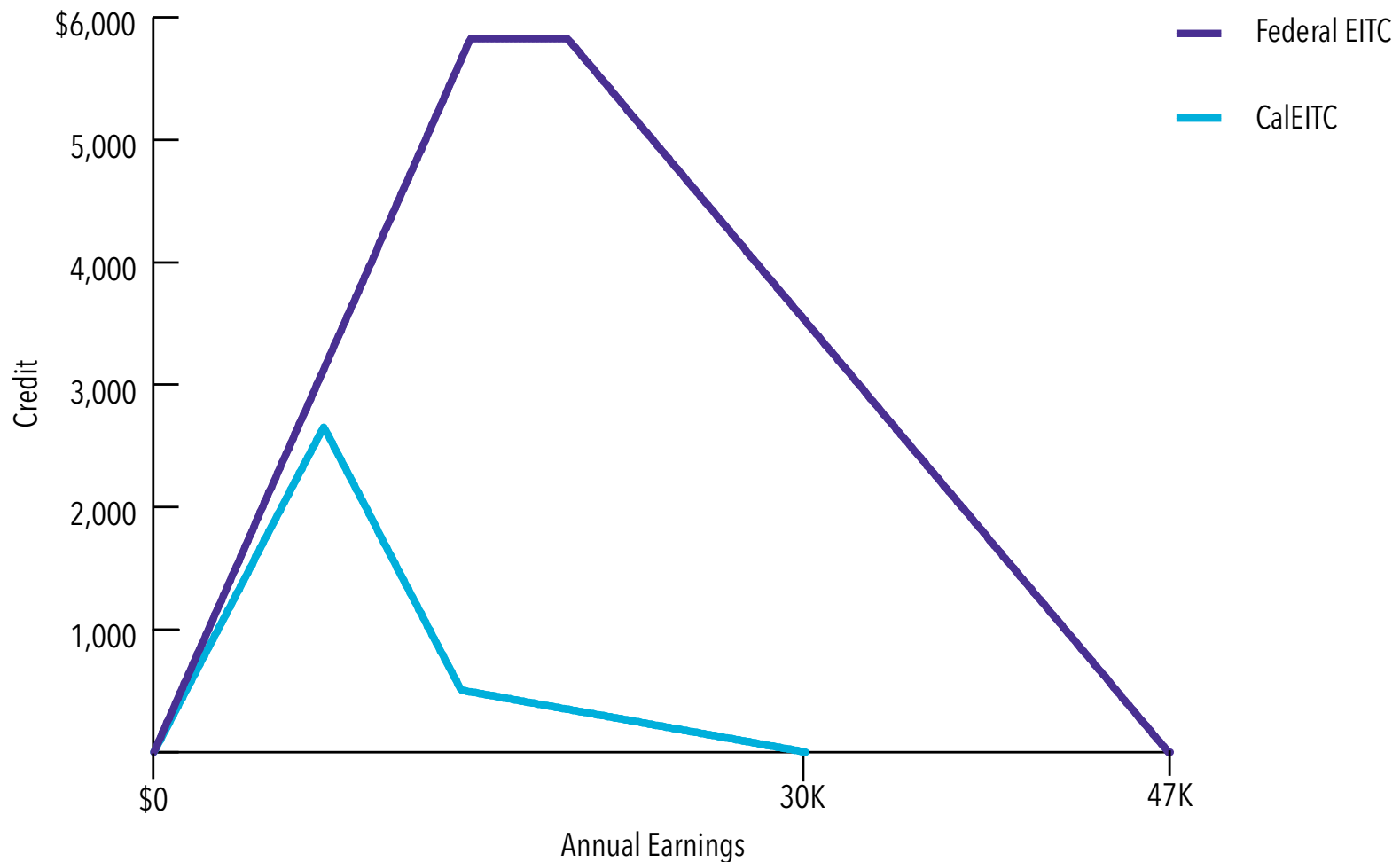
Income and Age Requirements Are Two Key Differences Between the CalEITC and Federal EITC

- **The income limits to qualify for the credits differ.**
 - For workers living with their children, the CalEITC income limit is much *lower*. This means that some families who qualify for the federal EITC [do not qualify](#) for the CalEITC.
 - For workers not living with children, the CalEITC income limit is much *higher*. This means that some individuals who qualify for the CalEITC do not qualify for the federal EITC.
- **The age requirements for workers who are not living with children differ.**
 - For the CalEITC, these workers must be at least 18. For the federal EITC, they must be ages 25 to 64. This means that some workers who are not living with children can qualify for the CalEITC but not the federal EITC.



For Families, the CalEITC Income Limit Is Lower Than the Federal EITC Income Limit

Credits for Heads of Household With Two Qualifying Children, Tax Year 2019

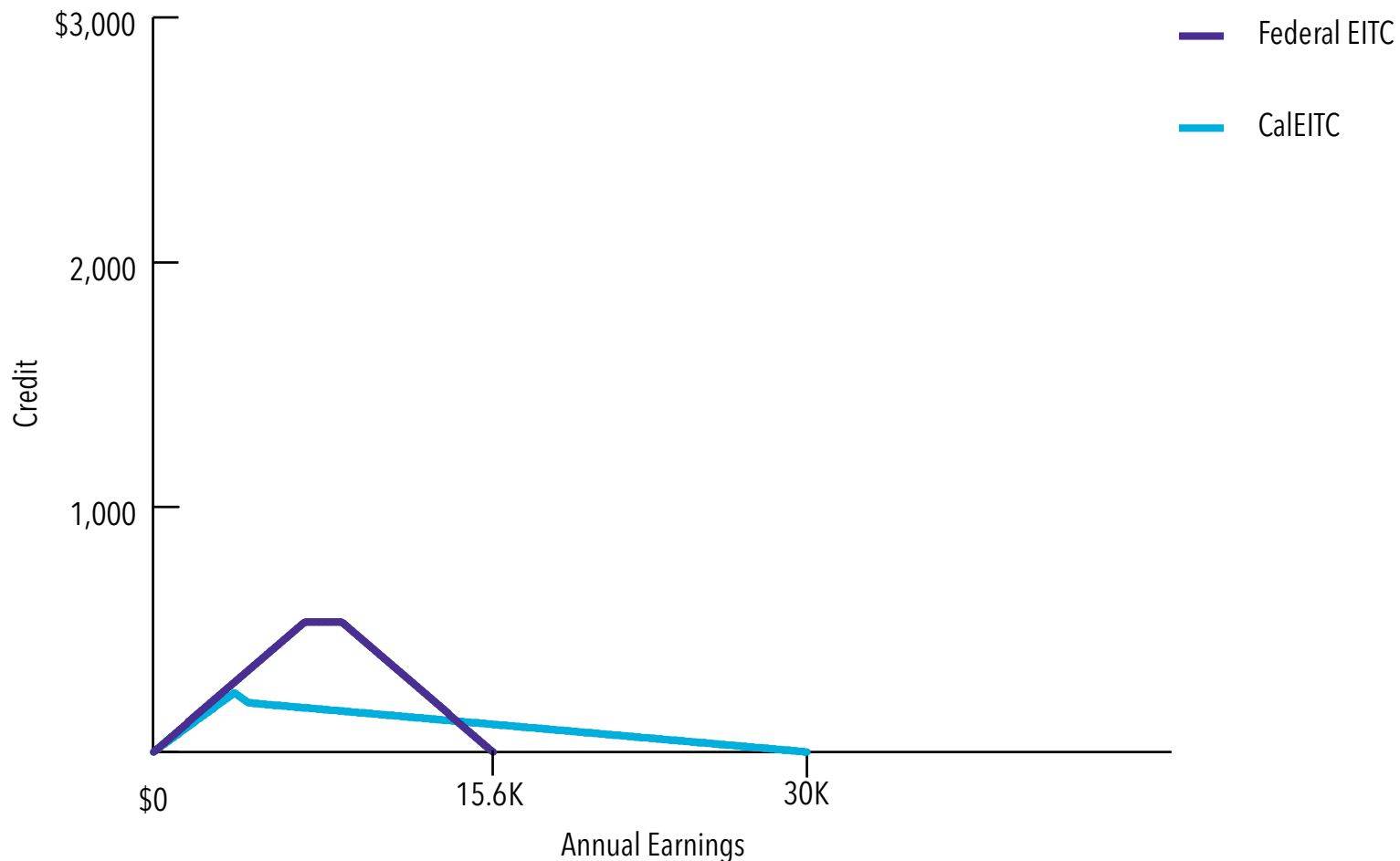


Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code and Section 32 of Title 26 of the Internal Revenue Code



For Workers Not Living With Children, the CalEITC Income Limit Is Higher Than the Federal EITC Limit

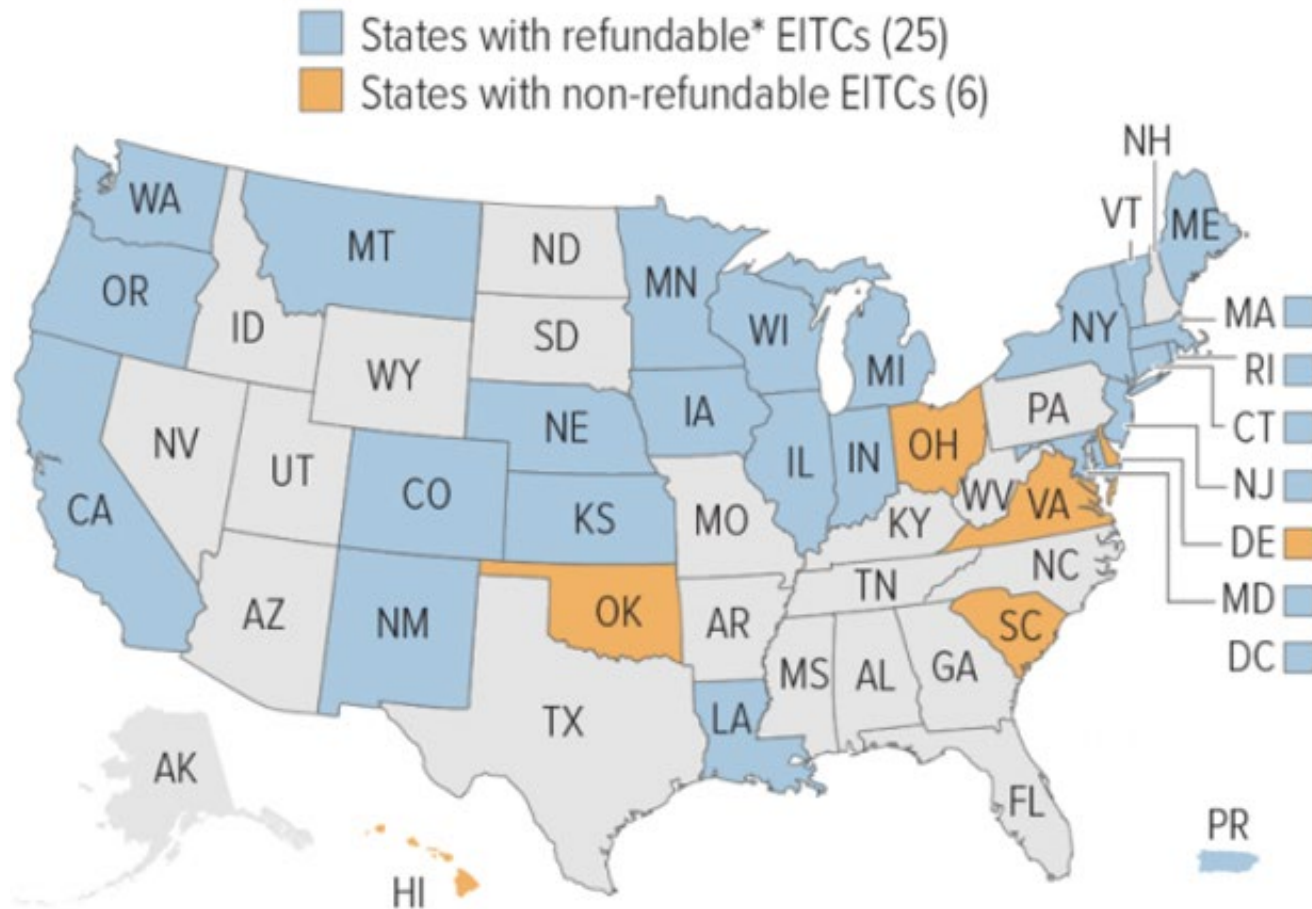
Credits for Single Filers With No Qualifying Children, Tax Year 2019



Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code and Section 32 of Title 26 of the Internal Revenue Code



California Is One of 29 States With an EITC, Together With D.C. and Puerto Rico



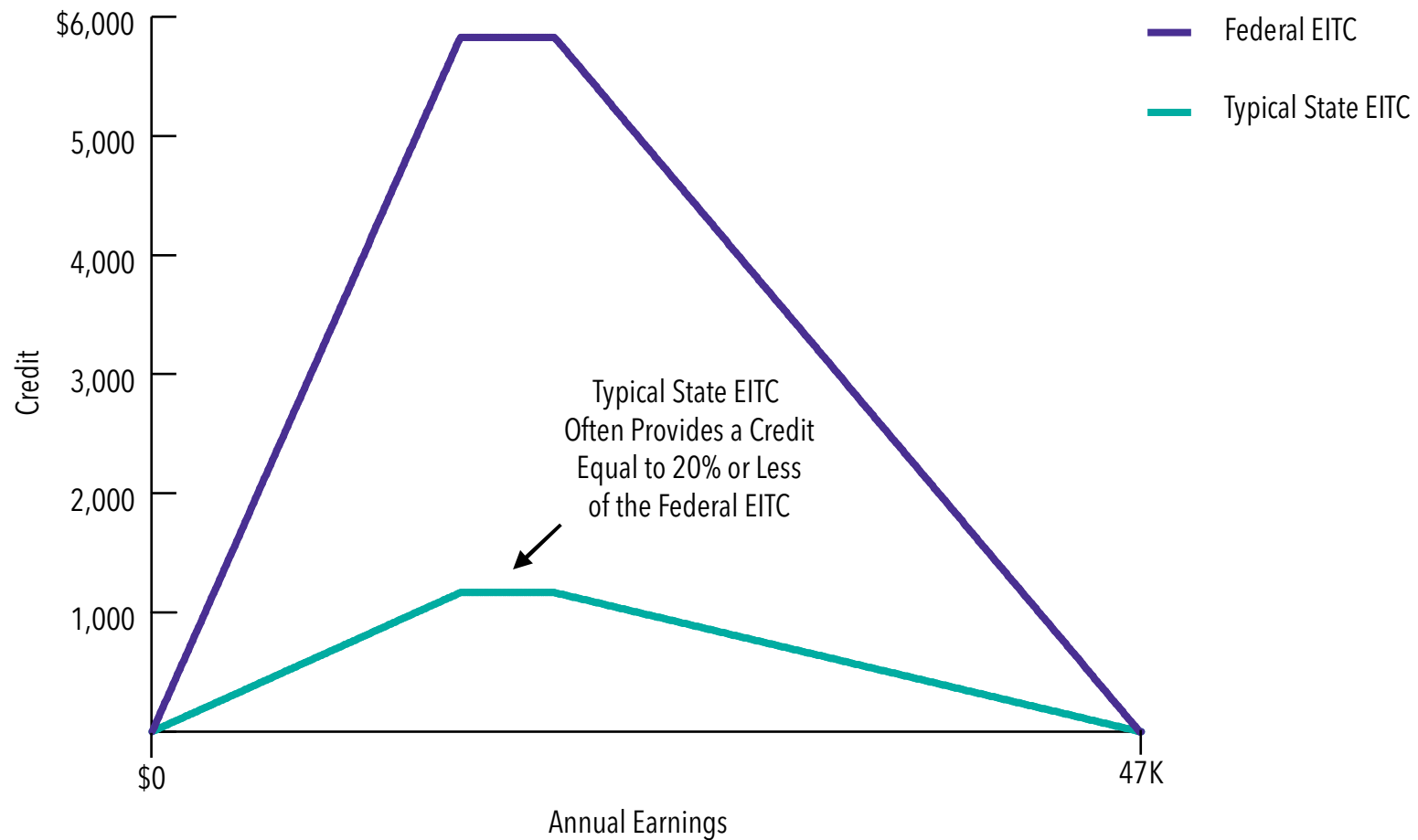
The CalEITC Differs From Other State EITCs, Which Usually Are Designed Just Like the Federal EITC

- **Nearly all state EITCs are structured like the federal EITC**, meaning that everyone who qualifies for the federal credit also qualifies for the state's credit.
- **The CalEITC differs from other state EITCs** because, as discussed earlier, the income limits and age requirements for the CalEITC differ from the federal EITC. This means that some workers qualify for only one of the credits, not both.
- The **majority** of state EITCs provide a credit of up to 20% of the federal EITC. For example, a parent who earns \$7,000 and has three children would qualify for \$3,150 from the federal EITC and **up to \$630 (20%) from the typical state EITC**.
- **In contrast, the CalEITC provides the largest refundable state EITC in the nation** – equal to 85% of the federal EITC for the lowest-income families and individuals. In the example above, the parent would get **\$2,678 from the CalEITC**.



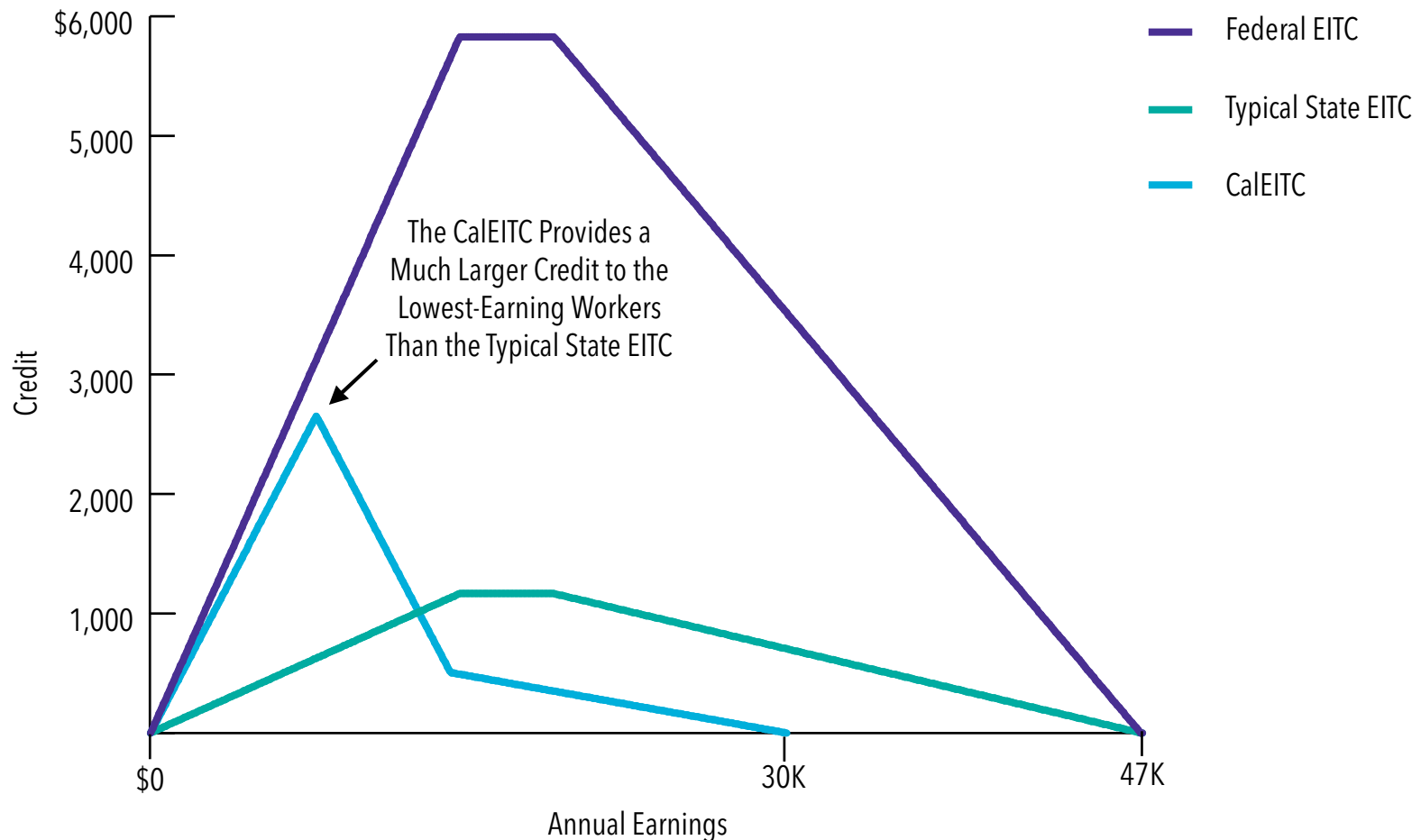
The Typical State EITC Provides a Credit to Every Worker Who Is Eligible for the Federal EITC

Credits for Heads of Household With Two Qualifying Children



The CalEITC Is Available to the Lowest-Earning Workers With Children Who Qualify for the Federal EITC

Credits for Heads of Household With Two Qualifying Children



Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code and Section 32 of Title 26 of the Internal Revenue Code



California Budget
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How Does California's Young Child Tax Credit Compare to the Federal Child Tax Credit and Other State Child Tax Credits?



California's Young Child Tax Credit Differs in Many Ways From the Federal Child Tax Credit

Young Child Tax Credit and Federal Child Tax Credit, Tax Year 2019

	California's Young Child Tax Credit	Federal Child Tax Credit
Maximum Credit	\$1,000 per family	\$2,000 per child
Annual Income to Qualify	\$1 to \$30,000	\$2,500 to \$240,000 or \$440,000*
Refundability	Fully refundable	Partially refundable
Age of Qualifying Children	Under 6	Under 17
Immigrant Eligibility	Qualifying children and tax filers must have SSNs that are valid for work	Qualifying children must have SSNs that are valid for work

* For people with one qualifying child who file as heads of household (\$240,000) or married filing jointly (\$440,000). Income limits are higher for those with more than one qualifying child.

Note: "SSN" means Social Security Number.

Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code and Section 24 of Title 26 of the Internal Revenue Code



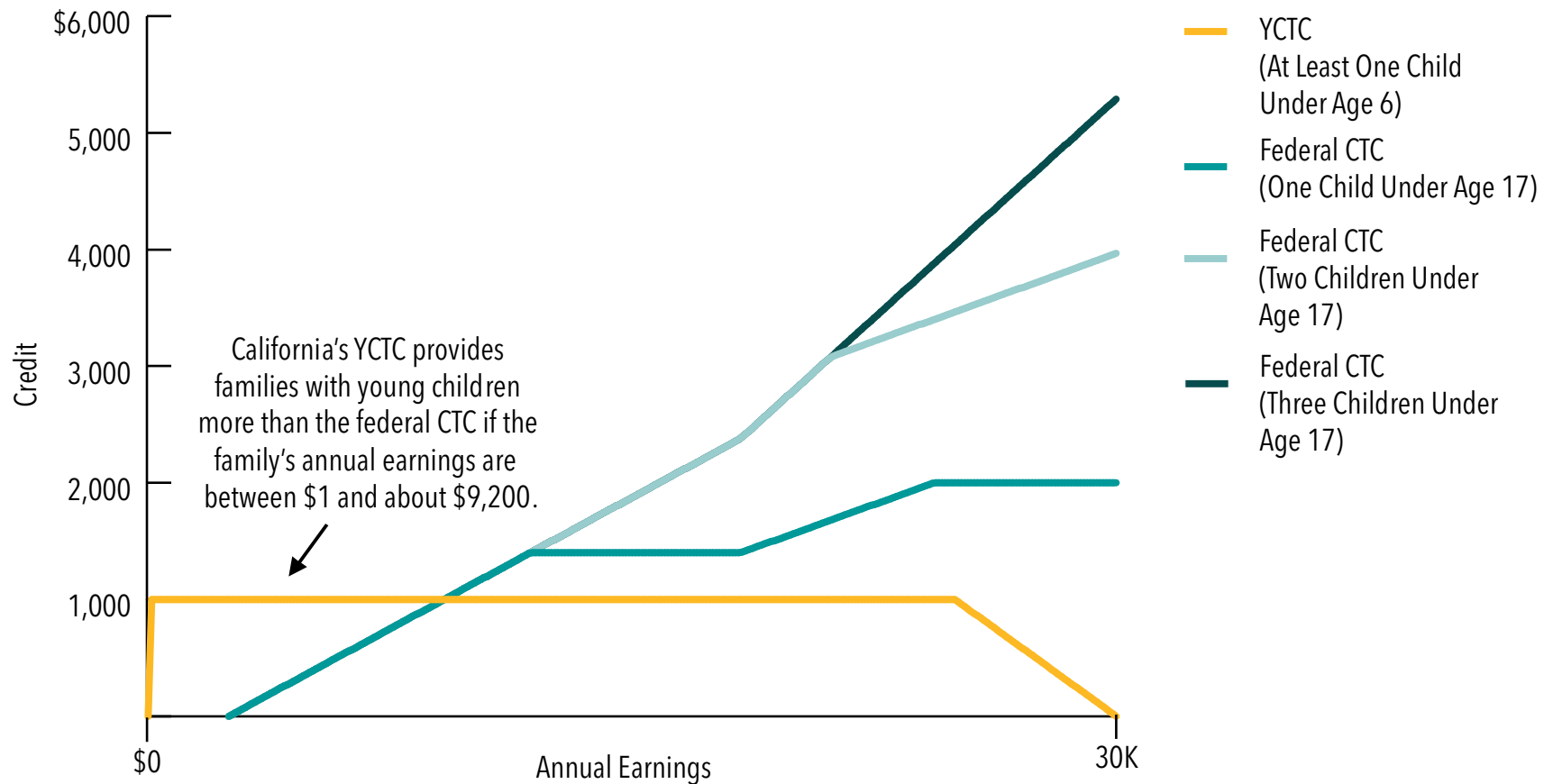
California's Young Child Tax Credit (YCTC) Differs in Key Ways From the Federal Child Tax Credit

- **Families with multiple children typically benefit *less* from the YCTC than from the federal CTC.** This is because California's YCTC provides up to \$1,000 *per family*, whereas the federal CTC provides up to \$2,000 *per child*.
- **However, the YCTC benefits families with very low earnings *more than* the federal CTC.**
 - Specifically, the YCTC benefits families with young children and annual earnings **below about \$9,200** more than the federal CTC.
 - This is because the YCTC provides the **maximum \$1,000 credit to families with as little as \$1** in annual earnings, whereas the federal CTC provides *no credit at all* to families earning \$2,500 or less per year (and it provides less than the maximum \$2,000-per-child credit to other families with low earnings).



Families With Young Children and Earnings Under About \$9,200 Benefit More From the YCTC Than the Federal CTC

Young Child Tax Credit (YCTC) and Federal Child Tax Credit (CTC), Tax Year 2019



Note: The federal CTC provides a credit per each qualifying child under age 17, whereas California's YCTC provides a credit per family with at least one qualifying child under age 6.

Source: Budget Center analysis of Section 17052 of California's Revenue and Taxation Code and Section 24 of Title 26 of the Internal Revenue Code



California's Young Child Tax Credit Differs in Key Ways From the Federal Child Tax Credit

- **California's Young Child Tax Credit also differs from the federal Child Tax Credit (CTC) in that:**
 - **It *only* benefits families with young children**, whereas the federal CTC benefits families with older children as well.
 - **It *only* benefits families with low earnings**, whereas the federal CTC also benefits middle- and high-income families.
 - **It *excludes* many immigrant families**, while the federal CTC is less restrictive in this regard, as discussed further on the next pages.



Why Does the Young Child Tax Credit Exclude Many Immigrant Families?

- **Most immigrants file income taxes using Social Security Numbers (SSNs).**
- **Those who do not have SSNs can file using federally issued Individual Taxpayer Identification Numbers (ITINs) instead.**
- **However, families who file their taxes using ITINs are excluded from California's Young Child Tax Credit** because California chose to base eligibility for this credit on the CalEITC, which in turn is based on *federal EITC* eligibility rules. These rules require tax filers and their children to use SSNs that are valid for work when filing taxes in order to claim the credit.



California's YCTC Is More Restrictive Than the Federal CTC Even After Recent Exclusions

- **Until tax year 2018, the federal Child Tax Credit (CTC) was available to tax filers using either SSNs or ITINs, claiming children using either SSNs or ITINs.**
- **The Tax Cuts and Jobs Act of 2017 restricted the federal CTC by requiring that children claimed have SSNs that are valid for work.** As a result, parents using SSNs or ITINs can currently claim the credit, but only for children with SSNs valid for work. Children with ITINs are now ineligible to be claimed for the credit.
- **Even after this change, California's Young Child Tax Credit (YCTC) is *more restrictive* toward immigrant families than the federal CTC** because it is not available to *any* children whose parents have ITINs, even if the children have SSNs.



California Is One of Very Few States That Provide Child Tax Credits or Dependent Tax Credits

- **California is one of just four states with child tax credits (CTCs) and one of only two states with refundable CTCs.*** This means that California's Young Child Tax Credit (YCTC) is one of just two state CTCs designed to benefit very low-income families.
- **New York is the other state that provides a refundable CTC.** The credit equals 33% of the federal CTC for children age 4 or older or \$100 per child age 4 or older, whichever is greater.
- **States with non-refundable CTCs are Oklahoma and Utah.**
- **In addition, two states – Idaho and Maine – have non-refundable dependent exemption credits, which share some similarities to CTCs.****

* Colorado established a refundable child tax credit in 2013, but it has never been implemented, and therefore is not counted as a state providing a child tax credit.

** California also has a non-refundable dependent exemption credit.

Source: Aidan Davis, et al., *The Case for Extending State-Level Child Tax Credits to Those Left Out: A 50-State Analysis* (Institute on Taxation and Economic Policy and Center on Poverty & Social Policy at Columbia University: April 17, 2019)



Most State Child Tax Credits Are More Inclusive of Immigrant Families Than California's YCTC

- **Most state Child Tax Credits (CTCs) or dependent exemption credits are more inclusive of immigrant families than California's YCTC.** This is because eligibility for most of these credits is based on rules for the federal CTC. As noted earlier, parents with ITINs can claim the federal CTC for children who have SSNs.
- **New York recently changed its CTC to be more inclusive of immigrant families than the federal CTC.** Specifically, New York chose to link its CTC to the eligibility criteria for the federal CTC prior to the TCJA, which ended the credit for children with ITINs, as discussed previously. This action allowed New York to preserve its CTC for children with ITINs who became ineligible for the federal CTC.



Building on the CalEITC and Young Child Tax Credit Would Allow More Californians to Share in the State's Prosperity



Building on the CalEITC and Young Child Tax Credit Is a Smart Investment in California's Future

- **Refundable income tax credits are highly effective tools** for helping families meet basic needs and may also contribute to a stronger future for children whose families struggle financially.
- **California should continue to build on the CalEITC and Young Child Tax Credit (YCTC).**
 - As a first priority, all Californians who earn little from their jobs and file their taxes should be able to benefit from these credits. (See pages 71-73.)
 - In addition, allowing children to be claimed for the YCTC even if their parents have no paid employment would allow the credit to reach more children in deep poverty and would recognize unpaid caregiving work. (See pages 74-75.)
 - Also, increasing the size of the YCTC and CalEITC would enhance their benefits for California's workers, children, and communities. (See pages 76-77.)



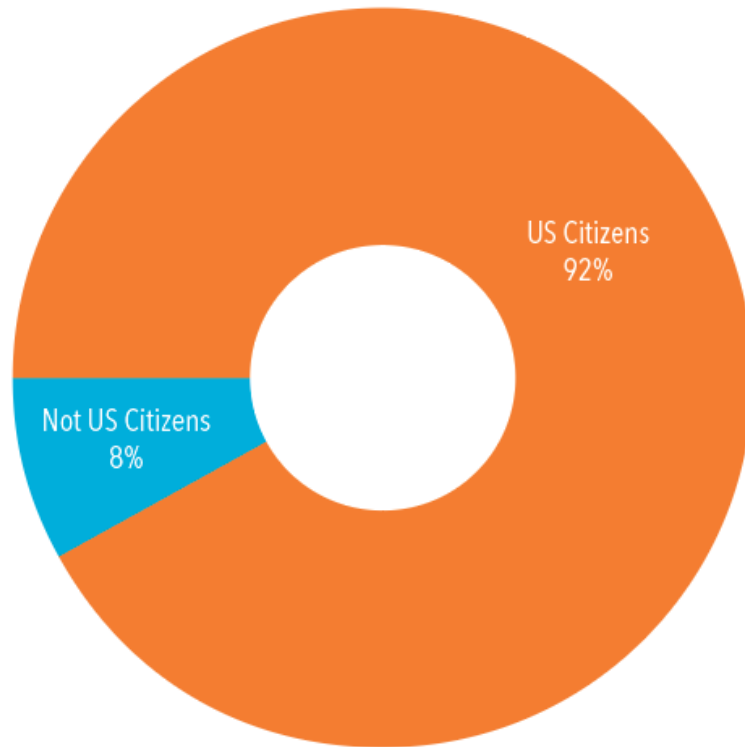
The CalEITC and YCTC Fail to Reach All Low-Earning Workers and Their Children

- **Hundreds of thousands of immigrants who earn little from work and who file state incomes taxes are excluded from the CalEITC and Young Child Tax Credit (YCTC).** As noted earlier, this is because to qualify, tax filers and their children must have SSNs that are valid for work. This means that:
 - Immigrants who file their taxes with federally issued ITINs cannot benefit from these credits, nor can their children even if they are US citizens. In fact, most children excluded from the CalEITC and the YCTC because their parents must file with ITINs are US citizens.
 - Californians who lose immigration relief such as Deferred Action for Childhood Arrivals (DACA) and Temporary Protected Status (TPS) due to federal actions will no longer qualify for these credits.

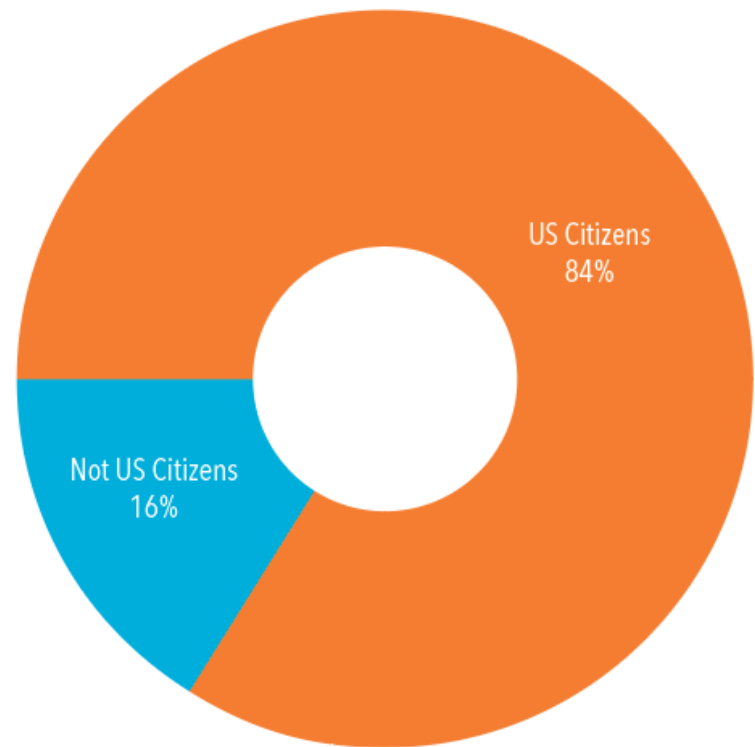


Most Children Excluded From the CalEITC & YCTC Because Their Parents Must File Their Taxes With ITINs Are US Citizens

Percentage of Children Ineligible to Benefit, Tax Year 2019



Young Child Tax Credit
(among children under age 6)



CalEITC
(among children under age 18)

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 2019, modeled using 2017 population data. Source: Budget Center analysis of US Census Bureau, American Community Survey data



Extend the CalEITC and YCTC to Excluded Immigrants and Their Families

- **State policymakers could ensure that all California families and individuals who earn little from their jobs and file their taxes have the opportunity to benefit from the CalEITC and YCTC** by allowing tax filers to claim the credit using a federally assigned ITIN or any federally assigned SSN. This policy change would:
 - Support [workers](#) who are the backbone of California's economy and invest in children who will be among the future workforce the state needs to maintain its economic strength.
 - Allow immigrants who contribute [billions of dollars](#) to state and local revenues to benefit from tax credits just like other Californians.
 - Increase economic security for families and reduce the harmful effects of child [poverty](#), which is more prevalent among children of immigrants.



Extend the Young Child Tax Credit to Families With No Earnings From Work

- **Some of the most economically vulnerable young children – those whose parents are not working – cannot benefit from the Young Child Tax Credit (YCTC) because families cannot qualify for the credit unless they have earnings from work.**
- **Extending the YCTC to these children would make the credit more like a [child allowance](#) – regular cash payments to families for each child in the home, regardless of whether the family has earnings from work. Child allowances are highly effective tools for reducing child poverty that many rich nations have established.**
- **Allowing parents without earnings to qualify for the YCTC would also recognize the unpaid caregiving work they are doing to raise the next generation.**



All young children living in deep poverty in California could be eligible for the Young Child Tax Credit if policymakers allow families who have no earnings from work as well as those who file their taxes with ITINs to benefit from the credit.



Increase California's Young Child Tax Credit to Enhance Its Benefits

- **Policies that boost the incomes of families who earn little from their jobs may improve children's outcomes, particularly if these policies target families when their children are young.**
- **Given this, increasing the benefits of the Young Child Tax Credit (YCTC) is a smart investment.** Options include:
 - **Providing a credit per young child rather than per family**, recognizing that families with multiple young children have higher expenses and are more likely to struggle financially. For example, the YCTC could provide up to \$1,000 for the first young child, up to \$500 for the second young child, and up to \$250 for the third young child.
 - **Increasing the size of the credit for families with infants and toddlers**, recognizing that these children are more vulnerable to the negative effects of poverty and parents with very young children have higher expenses and are more likely to have difficulty meeting basic needs.



Increase the Size of the CalEITC for Workers Who Qualify for Small Credits


- **Workers with low earnings who are not living with children qualify for relatively small credits from the CalEITC.** For example, the maximum credit for these workers (\$240) is just 15% of the maximum credit for workers with one child (\$1,605).
- **California could increase the CalEITC for these workers,** recognizing that they typically earn less than what is needed for a [modest standard of living](#), yet benefit little from the credit.
- **California could also increase the CalEITC for workers with children and earnings at the higher end of the eligibility range,** who also qualify for relatively small credits.
- **In addition, California could consider adjusting the CalEITC to account for differences in the cost-of-living throughout the state,** recognizing that the credit pays for less in high-cost areas.



The CalEITC and Young Child Tax Credit Are Smart Investments

California's refundable income tax credits increase families' economic security and help children succeed over the long term.



A photograph of a woman and two children sitting outdoors, smiling. The woman is in the center, with a boy on her left and a girl on her right. They are all wearing casual clothing. The background is slightly blurred, showing some greenery and a building. A semi-transparent text box is overlaid on the image, containing the main message.

By continuing to build on the CalEITC and Young Child Tax Credit, policymakers can help more families, children, and communities share in the state's economic prosperity.





California Budget
& Policy Center

Independent Analysis. Shared Prosperity.

1107 9th Street, Suite 310

Sacramento, California 95814

916.444.0500

contact@calbudgetcenter.org

[@CalBudgetCenter](https://twitter.com/CalBudgetCenter)

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