California Budget & Policy Center

FACT SHEET

California Loses Nearly $70 Billion Annually Through Tax Breaks

Much of the Loss Is to High-Income Households & Corporations

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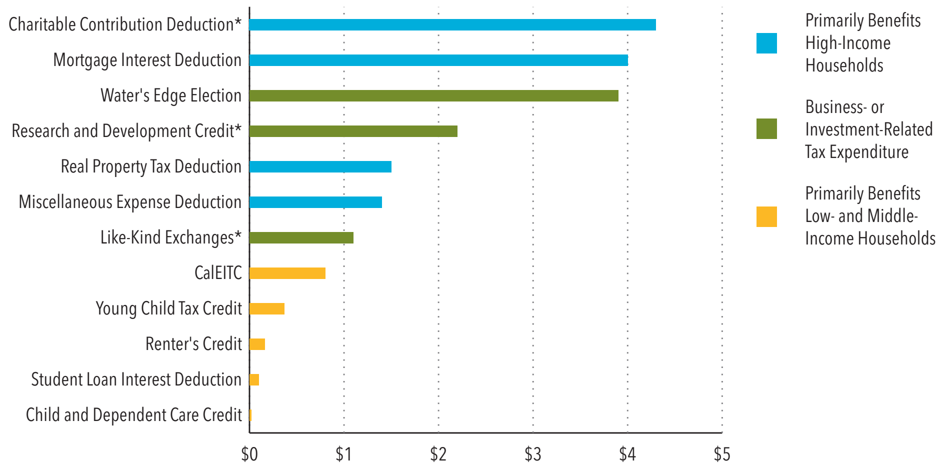
California will lose an estimated $69.2 billion in state General Fund revenues in 2021-22 to personal and corporate income tax breaks — or "tax expenditures."[1] Many of the state's largest tax breaks primarily benefit higher-income households and businesses, while just a fraction of the state's tax breaks are targeted to Californians with low and middle incomes.[2] *This revenue loss equals approximately one-third* of the state's 2021-22 General Fund budget and represents dollars the state could otherwise use to support Californians to live, work, and thrive across the state.

The **state will forgo more than $18 billion in revenue due to just four itemized deductions that mostly benefit higher-income households** and three tax incentives for businesses and investors. In comparison, **California will spend less than $1.5 billion on tax breaks that primarily benefit low- and middle-income households**, including the California Earned Income Tax Credit (CalEITC), the Young Child Tax Credit, the Renter's Credit, the Student Loan Interest Deduction, and the Child and Dependent Care Credit.

State Tax Breaks That Mostly Benefit the Wealthy and Businesses Far Exceed Those for Households of Less Means

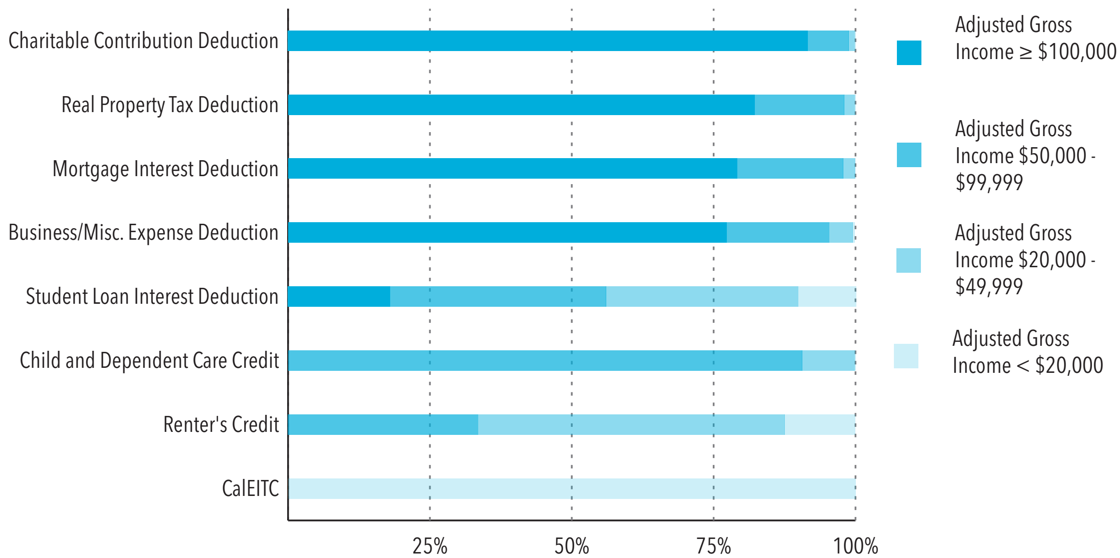
Projected 2021-22 California Revenue Loss for Select Tax Expenditures, Dollars in Billions



* Includes corporate income tax and personal income tax components.
Source: Department of Finance and Franchise Tax Board

Many California Tax Breaks Primarily Benefit High-Income Households

Percentage of Tax Benefits Received by Adjusted Gross Income Group, 2016



Notes: The CalEITC was only available in tax year 2016 for tax filers with federal adjusted gross income of up to about $14,000, depending on the number of qualifying children. Starting with the 2019 tax year, the CalEITC is available for filers with incomes up to $30,000.
Source: Budget Center analysis of Franchise Tax Board data

Some of California's tax expenditures also widen racial income and wealth disparities. Since Black and Latinx households are underrepresented in higher-income groups due to legacies of racist policies and ongoing discrimination, these households benefit less than white households from tax breaks skewed toward richer households. Additionally, many tax breaks reward wealth-building activities such as homeownership and retirement savings, to which households of color have less access.

When policymakers choose to spend public dollars via tax expenditures that largely benefit wealthy Californians and businesses, they are also choosing *not* to spend those dollars to help individuals and families who struggle with the costs of housing, child care, education, and other necessities. Eliminating or scaling back these tax expenditures would free up revenue that could be used to invest in resources that broaden economic security and create wealth and opportunity for more Californians.

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[1] Department of Finance, *Tax Expenditure Report 2021-22, 5*, https://www.dof.ca.gov/Forecasting/Economics/Tax_Expenditure_Reports/documents/2021-22%20Tax%20Expenditure%20Report.pdf.

[2] For a more detailed examination of California's tax expenditures, see Kayla Kitson, *Tax Breaks: California's $60 Billion Loss* (California Budget & Policy Center, January 2020), https://calbudgetcenter.org/resources/tax-breaks-californias-60-billion-loss/.