



CALIFORNIA BUDGET PROJECT

# The Case for an EITC in California

California Welfare Directors Association  
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Anaheim, California

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# EITC benefits families with children and rewards work

# of children	Single – Earnings to qualify	Married – Earnings to qualify	EITC Credit Amount
No child	\$1 to \$14,590	\$1 to \$20,020	\$2 to \$496
1 child	\$1 to \$38,511	\$1 to \$43,941	\$9 to \$3,305
2 children	\$1 to \$43,756	\$1 to \$49,186	\$10 to \$5,460
3 or more children	\$1 to \$46,997	\$1 to \$52,427	\$11 to \$6,143

Source: Internal Revenue Service

# EITC: Our most effective tool for reducing poverty

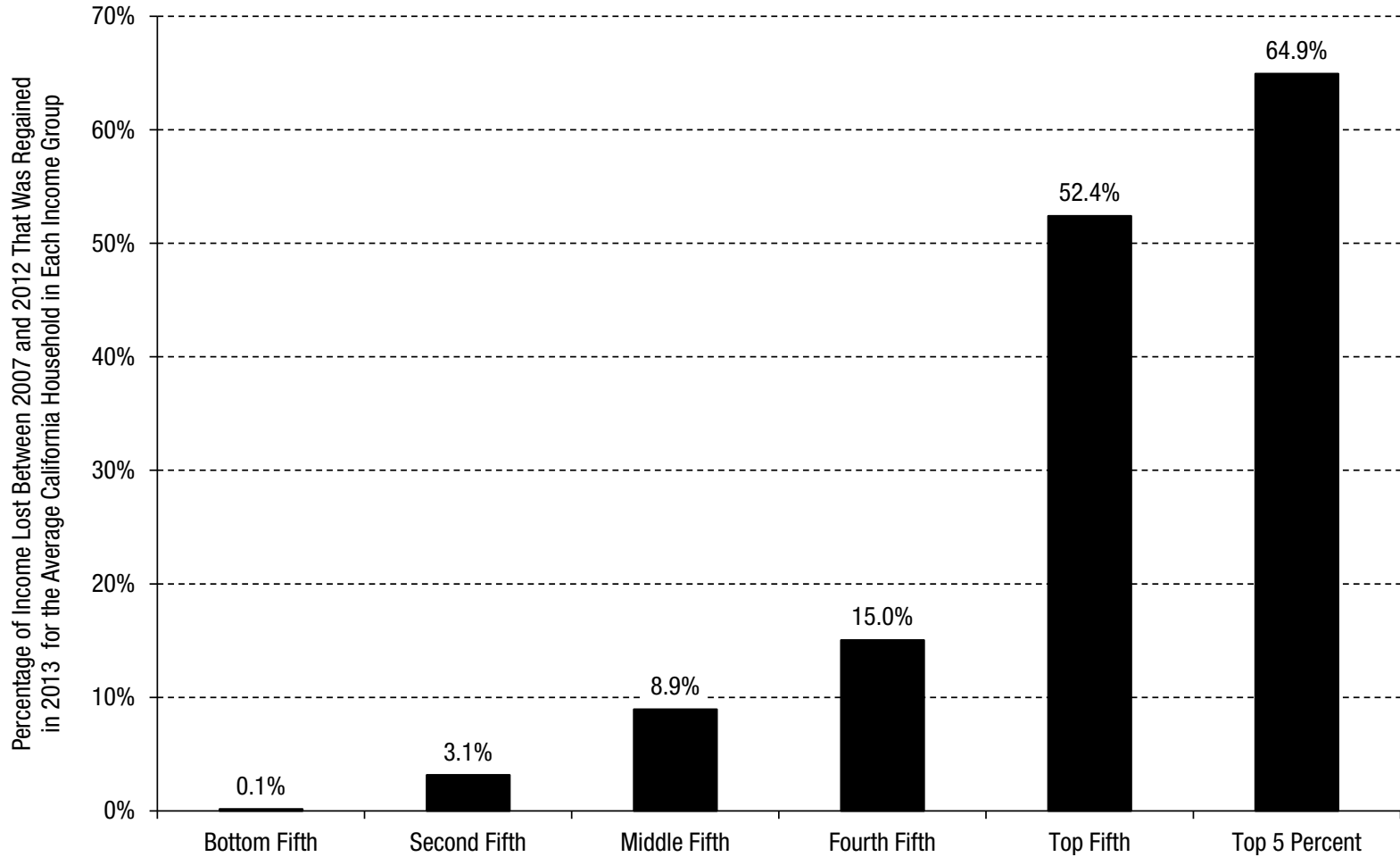
- EITC and the Child Tax Credit combined:
  - Lifted 10.1 million people (5.3 million children) above the federal poverty line in 2012;
  - Without the EITC, child poverty would be ¼ higher.
- In California the federal EITC:
  - Pulled 1.3 million people (629,000 children) above the federal poverty line between 2010-12.
  - Cut the child poverty rate by 6 percentage points.

Half of all states have created their own EITCs to further leverage the benefits of the federal credit, but not California . . .

**A California EITC would reduce economic hardship by boosting earnings and employment, make the state's tax system more fair, and contribute to a stronger workforce and economy.**

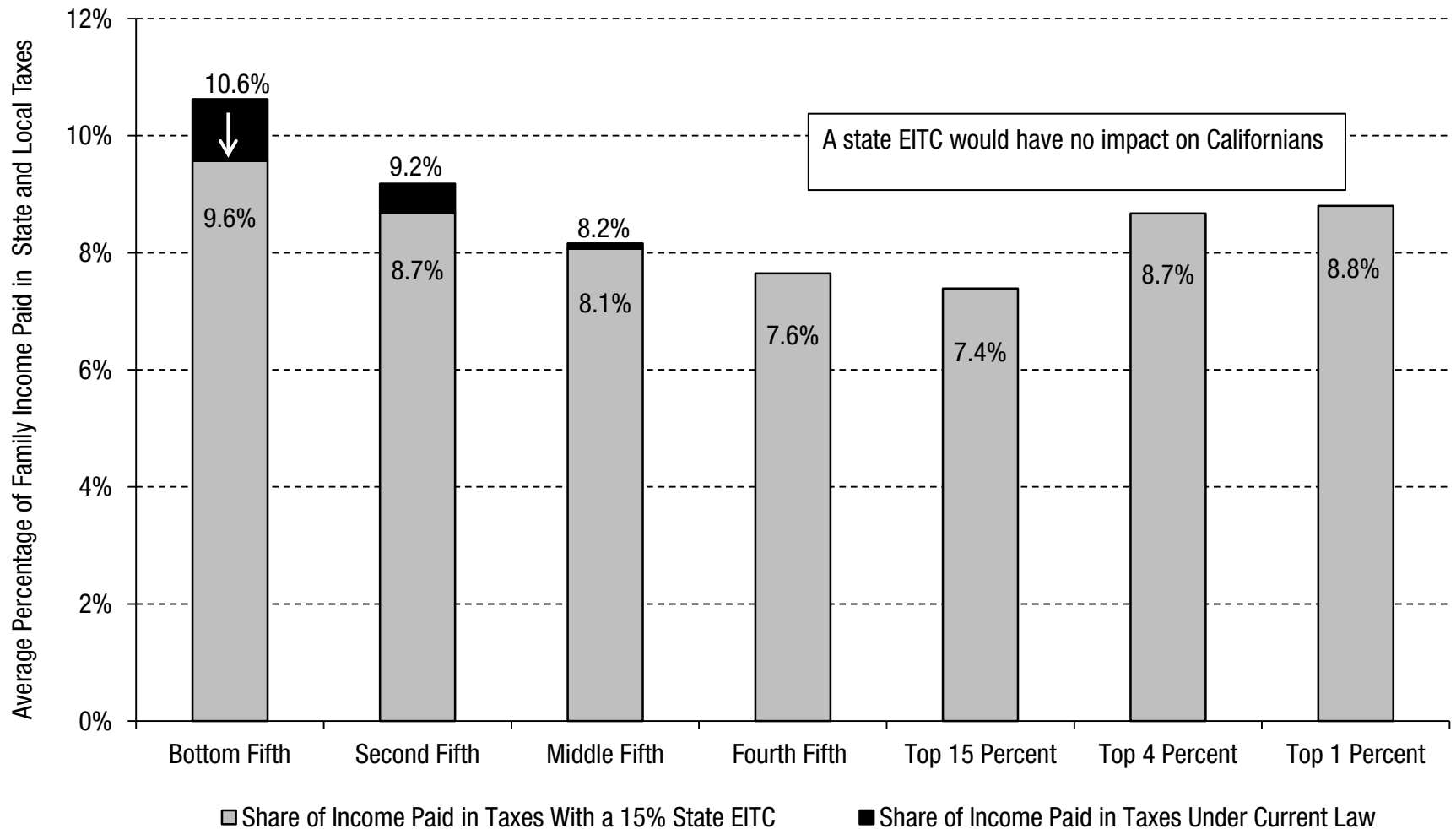
## Income Gains During the Recovery Have Largely Bypassed Low- and Middle-Income Californians

In a Single Year, the Top 5 Percent Regained Nearly Two-Thirds of the Income They Lost Between 2007 and 2012



Source: CBP analysis of US Census Bureau data

## A 15 Percent State EITC Would Reduce the Share of Income That Low- and Moderate-Income Families Pay in State and Local Taxes



Note: Analysis is restricted to nonelderly families. Includes impact of Proposition 30 temporary tax rates and offset for federal deductibility of state and local taxes.

# How should a California EITC be structured?

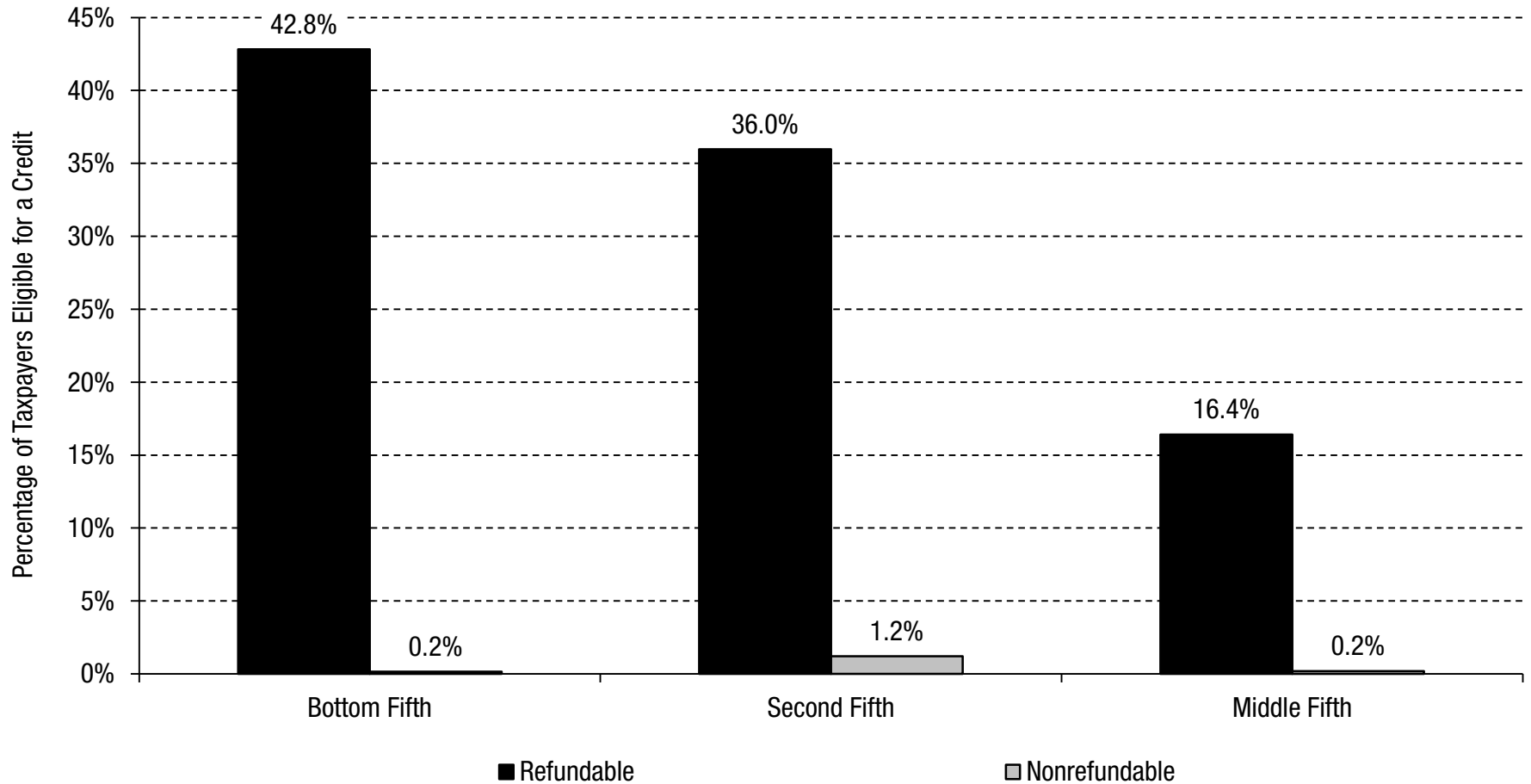


# A traditional state EITC — 15% of the federal credit

<b>Taxpayer Type</b>	<b>% Receiving Tax Cut</b>	<b>Avg. Cut – Bottom Fifth</b>	<b>Avg. Cut – Second Fifth</b>	<b>Avg. Cut – Middle Fifth</b>
<b>All</b>	19.2%	\$321	\$397	\$257
<b>Families with at least one child</b>	36.4%	\$484	\$416	\$254
<b>Families with at least one child age 5 or younger</b>	40.2%	\$501	\$427	\$280

Source: Institute on Taxation and Economic Policy

## Only a Refundable State EITC Would Ensure That the Credit Benefits a Large Number of California's Lowest-Income Households



Note: Analysis compares a refundable and nonrefundable state EITC equal to 15 percent of the federal EITC. Analysis is restricted to nonelderly families. Includes impact of Proposition 30 temporary tax rates and offset for federal deductibility of state and local taxes.

# A larger state EITC — more benefits, and cost

## State EITC as % of Federal EITC

# of Children	5%	10%	15%	20%	25%
No children	\$25	\$50	\$74	\$99	\$124
1 child	\$165	\$331	\$496	\$661	\$826
2 children	\$273	\$546	\$819	\$1,092	\$1,365
3 or more children	\$307	\$614	\$921	\$1,229	\$1,536

Source: CBP analysis of Internal Revenue Service data

# Alternative: A larger EITC for workers without children

Adults without dependent children		Adults with one child	
<u>State EITC</u>	<u>Maximum Credit</u>	<u>State EITC</u>	<u>Maximum Credit</u>
15%	\$74	15%	\$496
30%	\$149	15%	\$496
45%	\$223	15%	\$496
60%	\$298	15%	\$496

Source: CBP analysis of Internal Revenue Service data

# Alternative: Target EITC to families with young children

	Bottom Fifth	Second Fifth	Middle Fifth
	<u>Average Credit by Income Group</u>		
Targeted EITC	\$976	\$806	\$609
Traditional EITC	\$321	\$397	\$257
	<u>Average Credit as a Percentage of Income</u>		
Targeted EITC	7.5%	2.8%	1.3%
Traditional EITC	2.5%	1.4%	0.6%
	<u>Percentage of Taxpayers Receiving Credit</u>		
Targeted EITC	14.1%	17.9%	9.7%
Traditional EITC	42.8%	36.0%	16.4%

Source: Institute on Taxation and Economic Policy

# Other Issues

- EITCs work best in combination with minimum wage increases
- Why doesn't California already have a state EITC?
  - Costs – foregone tax revenues (\$1 billion)
  - Competing demands for scarce state resources
- Opportunities
  - The usual pathway – state legislature and Governor
  - Cap-and-Trade (?)
  - Oil severance tax

For more information

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