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Date:	April 1, 2024
To:	Secretary of the Senate Chief Clerk of the Assembly Legislative Counsel
From:	Chas Alamo, Legislative Analyst's Office
Subject:	Evaluation of the Better for Families Tax Refund

This report is submitted in accordance with Section 7(b)(1) of Chapter 51 of 2022 (AB 192, Committee on Budget) that directs our office to evaluate the extent to which the Better for Families tax refund helped families meet the demands of higher costs and inflation during the pandemic.

Background

State Constitutional Appropriations Limit. In the late 1970s, voters passed Proposition 4 (1979), which added Article XIIIB to the State Constitution. Article XIIIB limits how the state can spend tax revenues that exceed a certain threshold. Specifically, each year the state must compare the limit to appropriations subject to the limit. If appropriations subject to the limit are expected to exceed the limit, the Legislature can either: (1) lower taxes, (2) increase spending on excluded purposes, or (3) split the excess between additional school and community college district spending and taxpayer rebates.

Higher Costs and Inflation Began in 2021 and Peaked in Mid-2022. Due to many factors, prices for common goods increased during the pandemic, beginning in early 2021. This inflation peaked in June 2022 at about 8 percent annual growth in prices for California residents (as measured by the Consumer Price Index for urban consumers). By the end of 2022, prices overall were 20 percent higher than before the pandemic. Food and energy prices were more volatile, rising 27 percent and 25 percent respectively. The pace of inflation has slowed since 2022 but remains above the pre-pandemic average. Today, prices are growing around 3 percent annually.

Pandemic Era Revenues Came in Above Appropriations Limit. State General Fund revenues grew substantially during 2020-21 and 2021-22, increasing by 29 percent and 19 percent respectively. This revenue growth meant the appropriations limit was an important constraint on the Legislature's choices in these years. As a result, the state took steps to reduce appropriations subject to the limit as part of the spending plans for the 2021-22 budget and 2022-23 budget.

State Enacted Taxpayer Rebates to Help Meet Constitutional Limit. One step was to enact Chapter 51, which included $9.5 billion General Fund for a one-time payment, the Better for Families tax refund. As noted above, taxpayer refunds are not counted against the state's appropriation limit. The refund was administered and distributed to taxpayers by the state's Franchise Tax Board (FTB). FTB distributed tax refunds throughout October, November, and

December 2022. Figure 1 details refund amounts under the law based on taxpayers' adjusted gross income (AGI) during 2020.

Figure 1

Better for Families Tax Refund Amounts

	Refund With Dependent	Refund Without Dependent
Joint Filers		
Under $150k	$1,050	$700
$150k to $250k	750	500
$250k to $500k	600	400
Above $500k	Do not qualify	Do not qualify
Head of Household/Widow(er)		
Under $150k	$700	$350
$150k to $250k	500	250
$250k to $500k	400	200
Above $500k	Do not qualify	Do not qualify
Single/Married Filing Separately		
Under $75k	$700	$350
$75k to $125k	500	250
$125 to $250k	400	200
Above $250k	Do not qualify	Do not qualify

Analysis

Almost All Taxpayers Were Eligible for the Better for Families Tax Refund. The Better for Families tax refund was available to roughly 97 percent of all tax filers in the state, due to the refund's relatively high qualifying income amounts.

State Distributed $9.2 Billion in Refunds to 16.8 Million Filers. Based on data collected by FTB, the state distributed $9.2 billion in tax refunds to 16.8 million tax filers. Figure 2 on the next page shows the distribution of tax refunds by tax status and adjusted gross income (AGI) level.

Most Refund Spending Went to Joint Filers Under $250k and Single Filers Under $150k. Roughly 95 percent of the refunds distributed to joint filers and head of household/widow(er) filers went to taxpayers with AGI below $250,000. Similarly, roughly 95 percent of refunds distributed to single filers and married filing separately filers went to taxpayers with AGI below $125,000.

How Did Higher Costs and Inflation Affect Consumers During the Pandemic? According to data covering all U.S. households, average consumer expenditures on many items increased from 2020 to 2022, consistent with underlying price increases over that period. Among some of the largest consumer spending categories, average annual household spending on food increased $2,000 (28 percent), transportation increased $2,500 (25 percent), and housing increased $1,900

(15 percent). Overall average household expenditures increased $11,600 (19 percent) during that period, while average before tax income increased by a smaller amount, $9,700 (11 percent).

Figure 2

Better for Families Tax Refund Amounts

Filing Status/Adjusted Gross Income		Count	Amount	Individuals on tax Records
Joint	Under $150k	5,000,000	$4,138,000,000	14,800,000
	$150k to $250k	380,000	245,500,000	1,200,000
	$250k to $500k	210,000	112,200,000	680,000
Head of Household or Widow(er)	Under $150k	2,200,000	1,529,000,000	5,600,000
	$150k to $250k	30,000	14,600,000	70,000
	$250k to $500k	10,000	3,400,000	20,000
Single or Filing Separately	Under $75k	8,300,000	2,985,000,000	9,000,000
	$75k to $125k	430,000	111,800,000	450,000
	$125 to $250k	210,000	42,500,000	210,000
Totals		**16,800,000**	**$9,182,000,000**	**32,000,000**

Refunds Covered a Small but Meaningful Share of Increased Household Costs. Throughout the pandemic, inflation was running higher than wage growth in the aggregate. There has been a reversal since then, as the rate of inflation has gradually dissipated while wage growth has remained strong. In retrospect, the tax refunds provided a modest boost to Californians during a time when household finances were being squeezed due to inflation outpacing wage growth. Across all tax filers, the average Better for Families tax refund was $550. For families—that is, joint filers, head of household, and widow(er) filers—the refund averaged $750. For individual filers—single filers and married filing separately filers—the refund averaged $350. Compared to the changes in average household expenditures described above, the average refund ($550) was equivalent to roughly 5 percent of overall expenditure increases. The refund likely represented a larger share of expenditure increases for lower-income families. This is because these families have lower consumer expenditures than the average consumer and they received larger-than-average refunds.