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2022 Update on the California Earned Income Tax Credit

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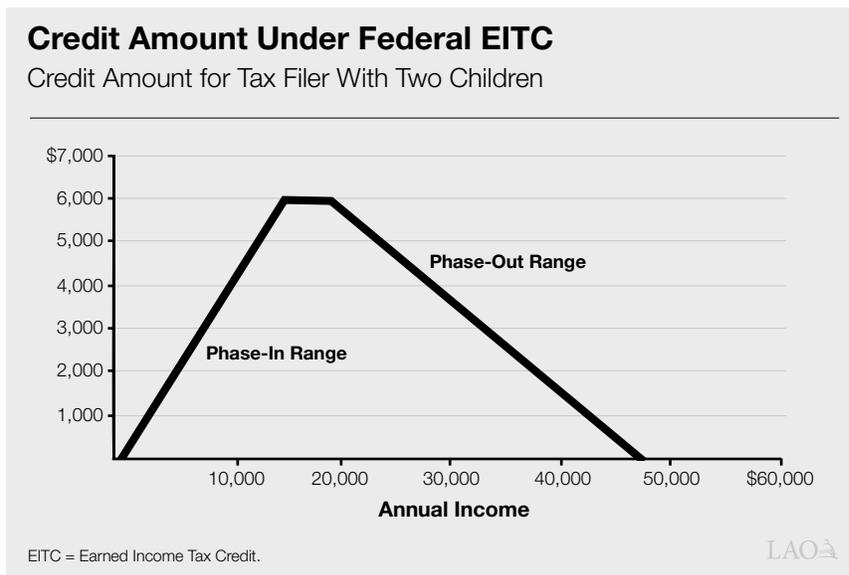
Assembly Committee on Revenue and Taxation
Hon. Jacqui Irwin, Chair



LEGISLATIVE ANALYST'S OFFICE

The Federal Earned Income Tax Credit

Federal Earned Income Tax Credit (EITC). The federal EITC is a fully refundable income tax credit that reduces tax liability for tax filers with earnings. (A fully refundable tax credit means the filer receives the full amount of the credit even if the credit is worth more than they owe.) The amount of the federal credit initially rises with earnings, remains flat briefly, and then declines for taxpayers with relatively higher incomes.

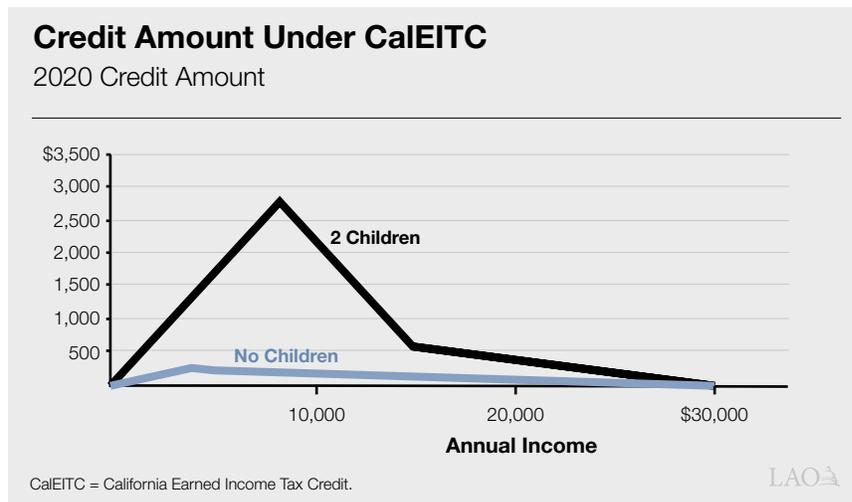


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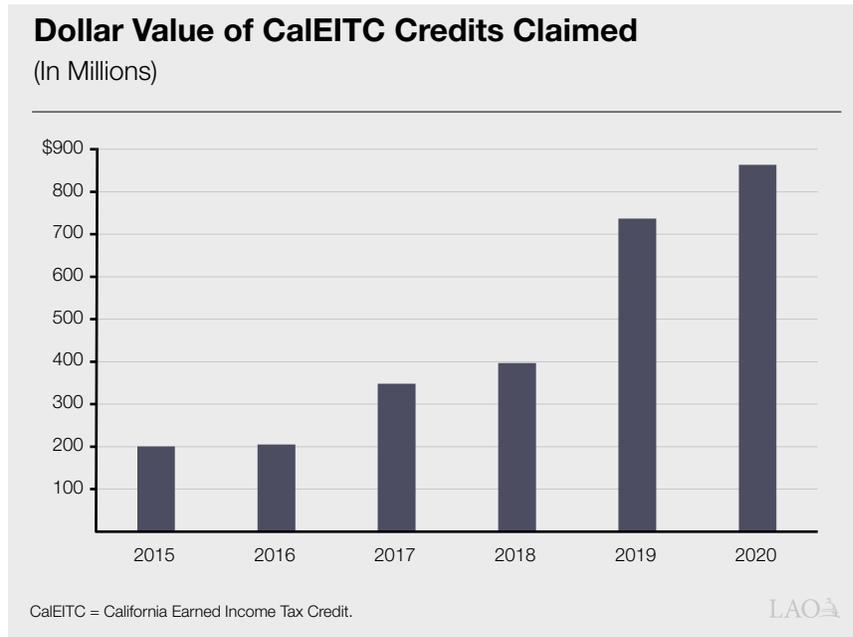
First Enacted in 2015. The California Earned Income Tax Credit (CalEITC) was established as part of the 2015-16 budget agreement. The state credit was based on the federal credit but focused on filers with income within the federal phase-in range. Focusing the state credit at the federal credit phase-in range had the effect of targeting the lowest-income tax filers.

State Has Expanded CalEITC Since Enactment

- **2017.** Increased income limit to \$15,000 for filers with no dependents and \$22,300 for filers with dependents. Allowed self-employed income to count as earned income for the CalEITC.
- **2018.** Increased income limit to \$16,750 for filers with no dependents and \$24,950 for filers with dependents. Filers under 25 years old or older than 65 years old with no dependents became eligible. These filers are not eligible for the federal EITC.
- **2019.** Increased income limit to \$30,000 for all filers. Also added a new \$1,000 credit for EITC filers with children under the age of six. Increased credit amount for filers with relatively higher incomes.
- **2020.** Expanded CalEITC eligibility to workers without a Social Security Number who instead file state income taxes using an Individual Taxpayer Identification Number.

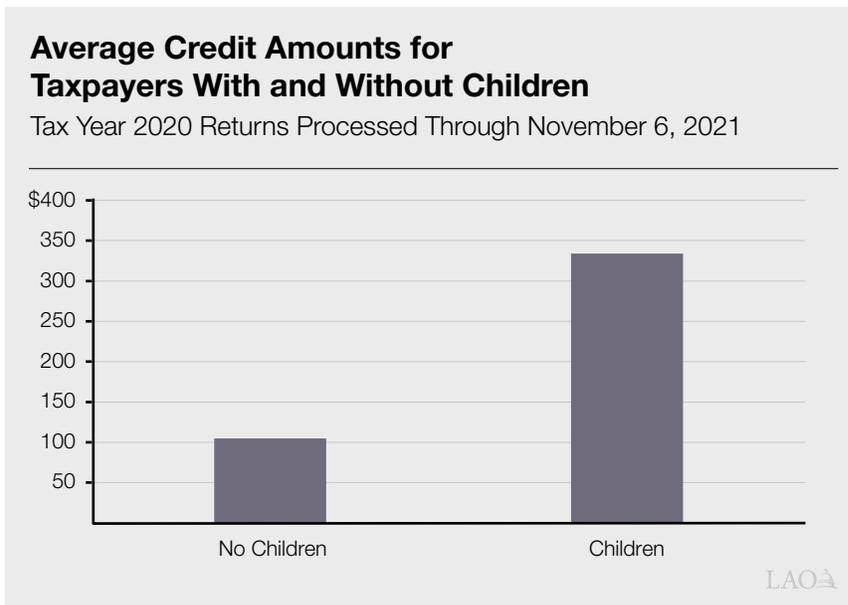
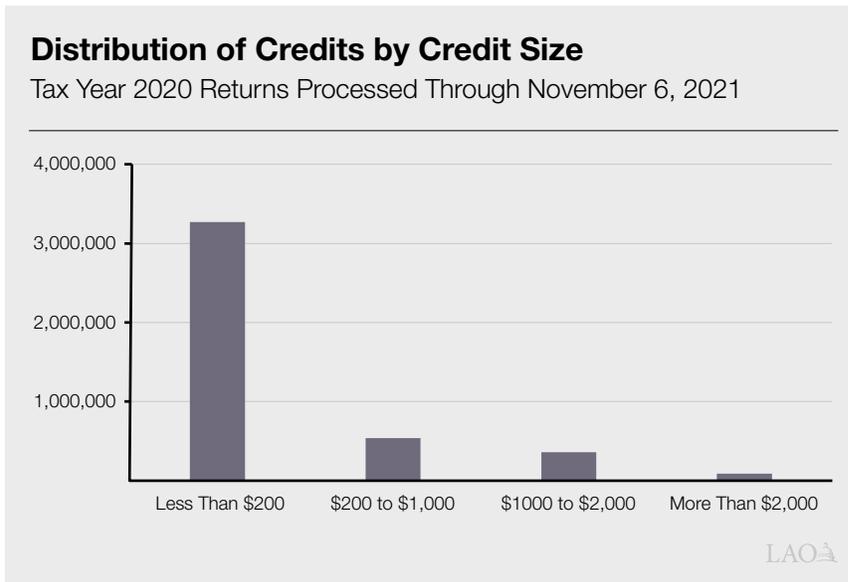


Historical Use of the CalEITC



Recent Use of the CalEITC

Tax Year 2020 Credit Usage. For tax year 2020, approximately 4.3 million California taxpayers claimed a total of \$863 million in CalEITC credits. This equates to an average credit amount of roughly \$200.



Recent Efforts to Boost Participation

Most Eligible Recipients Not Required to File State Income Taxes. Most households that are eligible for the CalEITC are not required to file state income taxes because their incomes are below the tax filing threshold. A taxpayer with two children, for example, does not need to file state income taxes unless their income is above \$43,000.

State Has Taken Steps in Recent Years to Increase CalEITC Participation. Each year since 2016, the state has included between \$2 million and \$10 million for education and outreach grants aimed at increasing CalEITC take-up among eligible taxpayers.

Recent Reports Shed Light on Ways to Boost Participation

- ***California Policy Lab’s “Increasing Take-Up of the EITC” (2020).*** Study tested different forms of CalEITC outreach to increase claiming of the credit among eligible taxpayers who do not file state income taxes. None of the tested outreach efforts led to increased tax filing or credit claiming. Rather than a lack of awareness about the credit, the study found that barriers to filing prevent higher take-up.
- ***Franchise Tax Board’s (FTB) SB 1409 Report (2022).*** Chapter 114 of 2020 (SB 1409, Caballero) directed FTB to (1) remove barriers to tax filing by low- and very low-income families, and (2) partner with state agencies to increase CalEITC usage. The SB 1409 report identifies current filing barriers, presents options to reduce or eliminate those barriers, and maps out ways FTB can coordinate with other state agencies.

