



February 14, 2018

Honorable Kevin de León & Honorable Toni Atkins  
President pro Tempore & President pro Tempore Elect,  
California State Senate

Honorable Anthony Rendon  
Speaker, California State Assembly

Honorable Holly J. Mitchell  
Chair, Senate Budget and Fiscal Review Committee

Honorable Phil Ting  
Chair, Assembly Committee on Budget

**RE: Strengthening the California Earned Income Tax Credit (CalEITC) in the 2018-19 Budget**

Dear Legislative and Budget Committee Leaders,

Our organizations write to strongly support the California Earned Income Tax Credit (CalEITC) and urge you to strengthen the credit in the 2018-19 state budget to provide an income boost to more working families living in poverty.

The California Earned Income Tax Credit (CalEITC) provides much-needed assistance to working families and individuals who are struggling to make ends meet. The CalEITC tackles California’s poverty crisis by reducing poverty among families and individuals. Research shows that the EITC promotes educational success, improves child and maternal health, boosts local economic growth and builds economic security in the long-run by increasing future earnings. The CalEITC was enacted in 2015 and expanded in 2017 to include self-employed workers and households with incomes up to \$22,300 per year. Working families with children can receive a credit of up to \$2,775.

The CalEITC Advocacy Coalition recommends the following improvements to strengthen the poverty-fighting impact of the CalEITC for low-wage workers and ensure that the CalEITC reaches working Californians who file taxes yet are currently excluded from the federal and state EITCs, such as young adults, immigrant families, and seniors. If a Californian works and files a tax return, they should be eligible for the CalEITC if they meet the income eligibility guidelines.

### **1. Create a multi-year target for increasing the CalEITC, as proposed by Assembly Budget Chair Phil Ting in the 2018-19 Blueprint for a Responsible Budget.**

Increasing the size and reach of the CalEITC will put more money in the pockets of low-income working families and individuals. Rigorous research on the federal EITC shows that larger credits have significant positive impacts on family income, children's and mother's health, and children's educational outcomes. More robust credits would be particularly impactful for families in deep poverty and workers who are not living with dependent children who currently receive very small credits. The CalEITC income eligibility limits should also be adjusted to ensure that full-time minimum wage workers do not lose eligibility for the CalEITC as the state minimum wage rises to \$15/hour by 2022.

Our Coalition fully supports the 2018-19 Assembly Budget Blueprint proposal to increase the CalEITC, particularly the following provisions:

- Increasing the size of the credit for the lowest-income working families, up to a total \$6,000 credit for a family with 2 children when combined with the federal EITC
- Increasing the size of the credit for workers without dependent children (including non-custodial parents and childless workers)
- Raising the CalEITC income eligibility limit to \$31,000 to preserve eligibility for full-time workers as the minimum wage rises

### **2. Include low-income working young adults ages 18-24 in the CalEITC.**

Currently, working young adults under age 25 without qualifying dependent children are not eligible for the CalEITC. The age limit leaves out young adults who often lack financial security early in their careers, working students struggling to get by, and former foster youth. Young adults ages 18 to 24 experience poverty at higher rates than any other adult age group.

Because the EITC is only available to workers who cannot be claimed as a dependent, full-time college students receiving support from parents would generally not be eligible for the CalEITC even if the limit was lowered to age 18. Currently, a recent high school graduate entering the workforce would need to work seven years before they are eligible for the tax credit. When the federal EITC was created under President Reagan in 1975, young workers were much more likely to leave high school or college and move into full-time jobs paying good wages. That has changed for many. Making the credit available to low-wage young adults will provide key support during a vital period of their career development.

**Recommendation:** Lower the age limit for workers not living with dependent children to receive the CalEITC from 25 to 18.

**Cost and Benefit Estimate from the California Budget and Policy Center:** \$40 million. 555,000 young adults would become newly eligible.

### **3. Include low-income working seniors in the CalEITC by eliminating the upper age limit.**

Currently, working seniors over the age of 65 without qualifying dependent children or grandchildren are not eligible for the CalEITC. At a time when many older adults are working beyond the traditional retirement age out of financial necessity, the age limit prevents seniors struggling to make ends meet from benefiting from the credit. The age at which retirees can receive full Social Security benefit is now

66 and will rise to 67 by 2027. Maximum Social Security benefits don't start till age 70 and many low-income workers do not receive Social Security that is sufficient to keep them out of poverty.

Poverty among California residents age 65 and older has been increasing over the past two decades. Older workers with incomes that would qualify them for the CalEITC are among those most at risk of financial insecurity in retirement.

**Recommendation:** Eliminate the upper age limit for workers not living with dependent children.

**Cost and Benefit Estimate from the California Budget and Policy Center:** \$8 million. 109,000 working seniors would become newly eligible.

#### **4. Include Immigrant Families with Individual Taxpayer Identification Numbers (ITIN) in the CalEITC.**

Many immigrant working families are unjustly excluded from the CalEITC because the credit is granted only if every person in the household has a Social Security Number valid for work. Many immigrants use an IRS-issued Individual Taxpayer Identification Number (ITIN) to pay federal and state income taxes and file their tax returns. While the federal EITC excludes immigrants who file with an ITIN from receiving this benefit, California is not bound by these rules for its state-funded tax credit and can improve the state design for a more equitable and inclusive policy.

Immigrants contribute about one third of the state's GDP and pay payroll and income taxes however, those contributions have not translated into equitable incomes. Per capita income for households headed by an undocumented immigrant - particularly at risk of exploitation and abuse - is only \$16,100.<sup>1</sup> In California, 1 in 6 children have at least one undocumented parent.<sup>2</sup>

Including immigrant families who have an ITIN will help lessen recent federal actions, like a provision in the 2017 federal tax bill that denies the Child Tax Credit to roughly 1 million children in immigrant working families because they lack a Social Security Number. Removing an exclusion to access CalEITC for ITIN holders would provide greater financial security to low-income working immigrant families who pay taxes and contribute to our state's economy.

**Recommendation:** Remove this exclusion to the CalEITC based on immigration status by allowing those with Individual Taxpayer Identification Numbers (ITIN) to claim the credit if they are otherwise eligible.

**Cost and Benefit Estimate from the California Budget and Policy Center:** \$44-\$65 million (depending on take-up rate). 112,500-169,000 immigrant working families who file a tax return would become newly eligible.

#### **5. Increase state investment in CalEITC outreach and free tax preparation assistance to reach and better serve low-income workers.**

Increased outreach efforts are necessary to ensure that eligible workers and families receive the state and federal EITCs. Fewer than 1 in 5 people who were likely eligible for the CalEITC had heard of the credit and fewer than half of those who were likely eligible filed their taxes, according to a survey by the

---

<sup>1</sup> Rodney, Jon, Sanchez, Jared, Scoggins, Justin. (2017). *Resilience in an Age of Inequality: Immigrant Contributions to California*. <https://www.scribd.com/document/337336889/Resilience-In-An-Age-of-Inequality-Immigrant-Contributions-Report-2017-edition>

<sup>2</sup> [http://dornsife.usc.edu/assets/sites/731/docs/whats\\_at\\_stake\\_for\\_the\\_state.pdf](http://dornsife.usc.edu/assets/sites/731/docs/whats_at_stake_for_the_state.pdf)

California Budget and Policy Center. The majority of CalEITC-eligible workers are not required to file taxes because they are below the required income threshold, yet these are the workers who need the credit the most. Ongoing robust outreach through trusted messengers is needed to reach eligible workers. This population also tends to churn into and out of income eligibility so ongoing outreach is necessary.

In addition, the approximately 900 existing free tax preparation sites are not sufficient to serve the number of low-income workers who need assistance. Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) free tax preparation programs need to be expanded to more locations, provide more weekend and evening hours, and hire good site managers. VITA and TCE sites have the lowest error rates of all tax preparers and help the low-income workers keep more of their hard earned money. By serving more low-income families, CalEITC recipients are not forced to spend some or all of their cash-back credit on a paid preparer. By improving outreach and expanding free tax preparation, the proposed grant program will maximize the poverty-fighting impact of the state EITC.

**Recommendation:** Provide \$9 million in grants for two purposes: 1) Increase the size of outreach grants to \$4 million and 2) launch a \$5 million grant program to increase the availability of free tax prep assistance.

**Cost Estimate:** \$9 million.

Thank you for your leadership on behalf of low-income families in California. We look forward to working with you in the coming months to improve the CalEITC and advance towards a future where no Californian lives in poverty, especially working families.

Sincerely,

Michele Stillwell-Parvensky  
Children's Defense Fund – California

Peter Manzo  
United Ways of California

Betzabel Estudillo  
California Immigrant Policy Center

Carla Javits  
REDF

Kris Calvin  
American Academy of Pediatrics, California

Michael Herald  
Western Center on Law & Poverty

Frank Mecca  
County Welfare Directors Association of California

Rebecca Gonzales  
National Association of Social Workers

Chione Flegal  
PolicyLink

Shanti Prasad  
Alameda County Community Food Bank

Joe Sandberg & Josh Fryday  
Golden State Opportunity

Jim Lindburg  
Friends Committee on Legislation of California

Andrew Cheyne  
California Association of Food Banks

Jessica Bartholow  
California Asset Building Coalition

Brian Weinberger  
NextGen America

Kevin Aslanian  
Coalition of California Welfare Rights Coalition

Andrea Luquetta-Kern  
California Reinvestment Coalition

CC: Honorable Richard Roth, California State Senate, Chair of Budget Subcommittee 4  
Honorable Jim Cooper, California State Assembly, Chair of Budget Subcommittee 4  
Members of the California Senate Budget Committee  
Members of the California Assembly Budget Committee  
Ms. Donna Campbell, Secretary, Office of Governor Jerry Brown