

# California Legislature

May 17, 2017

The Honorable Holly J. Mitchell  
Chair, Budget and Fiscal Review Committee  
California State Senate  
Sacramento, CA 95814

The Honorable Phil Ting  
Chair, Budget Committee  
California State Assembly  
Sacramento, CA 95814

## **RE: Strengthening and Expanding the California Earned Income Tax Credit (CalEITC)**

Dear Senator Mitchell and Assemblymember Ting:

We write to strongly support the California Earned Income Tax Credit (CalEITC) and urge you to strengthen and expand the credit in the 2017-18 state budget to provide an income boost to more working families living in poverty by: 1) investing in outreach and free tax preparation so more eligible families receive their credits; 2) enabling all self-employed workers meeting the income eligibility requirements to benefit; and 3) increasing the CalEITC income eligibility threshold.

The CalEITC, enacted by the Legislature and the Governor in 2015, provides much-needed assistance to working families and individuals who are struggling to make ends meet. The CalEITC has long-lasting benefits for children, families, and communities:

- **Reduces deep poverty:** More than 1 in 5 Californians – including nearly 1 in 4 California children – live in poverty. The state’s poverty crisis leaves millions of working Californians unable to meet basic needs. The CalEITC builds upon the success of the federal EITC, which is the nation’s largest and most successful anti-poverty program. The CalEITC lifts 23,000 California families out of deep poverty, according to the Franchise Tax Board.
- **Improves child and maternal health:** Research on the EITC shows the income boost improves maternal health and reduces the likelihood of low-weight or premature births.
- **Promotes educational success:** Children in households receiving the EITC also tend to do better academically in both the short and long term, with higher test scores, higher high-school graduation rates, and higher college attendance rates.

- **Spurs local economic growth:** The EITC puts money in the hands of people most likely to spend it, which stimulates the local economy. Studies of EITCs adopted in other states have estimated that each additional dollar received by a tax filer can generate a further \$1.50-2.00 in local economic activity.
- **Builds economic security in the long run:** The benefits of the EITC extend to the next generation by increasing earnings when children reach adulthood.

### **Recommended Improvements to the CalEITC in the 2017-18 Budget**

#### **Invest in CalEITC outreach and free tax preparation services**

California should fund robust outreach and increased capacity in free tax-preparation services throughout the state by continuing the CalEITC Education and Outreach Grant Program administered by the Department of Community Services and Development at a funding level of \$9 million to ensure outreach resources are sufficient to meet the needs and that free tax prep assistance is there for those who want to access it.

Promoting the CalEITC is critical to its success. The CalEITC targets very poor households, a hard to reach population who are struggling to make ends meet every day and are mostly not required to file state taxes unless they want to claim their credit. A survey conducted by the California Budget and Policy Center found that fewer than 1 in 5 people who were likely eligible for the CalEITC had even heard of the credit. The Franchise Tax Board acknowledged that households will churn on and off the income eligibility threshold for CalEITC, thereby making ongoing outreach efforts particularly important. Efforts to raise awareness of the CalEITC are critical to ensuring as many eligible families as possible benefit from the credit.

Promoting the state EITC also provides a great opportunity to increase participation in the federal EITC, which would draw millions of dollars into the state, help low-income working families better support themselves, and boost local economies.

The final 2016-17 budget included \$2 million to support CalEITC outreach and marketing. Unfortunately, no ongoing funds for outreach were included in the Governor's 2017-18 budget proposal.

#### **Include self-employment earnings in determining eligibility for the CalEITC**

The CalEITC should include self-employment earnings to reward work by entrepreneurs and independent contractors. According to budget simulations done by the Institute of Taxation and Economic Policy (ITEP) for the California Budget and Policy Center, this change would benefit an additional 134,000 low-income households at a cost of no more than \$40 million.

Self-employment income is not currently counted in determining eligibility for the CalEITC. Neither the federal government nor any other state specifically exclude self-employed workers and entrepreneurs from claiming an earned income tax credit. California's decision to exclude

self-employment income was made, according to statements made by the Governor's office, to prevent fraud. However, improper EITC payments mostly result from error, not intentional fraud. In addition, the difficulty with verifying self-employment income extends across the income spectrum and self-employed individuals are not disqualified from receiving other tax benefits solely because they have self-employment income. There is no justification for exclusively penalizing Californians in deep poverty who are trying to create their own jobs.

**Increase the CalEITC income eligibility threshold to reach all households eligible for the federal EITC**


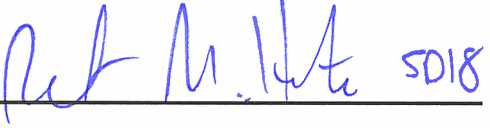
The CalEITC income eligibility threshold should be increased to align with the federal EITC, which would make the credit available to an additional 2.7 million households at an estimated cost of \$1.7 billion. Extending the CalEITC to workers with higher incomes would enable the credit to lift working families above the poverty line and provide a more valuable work incentive to part-time employees and new workers entering the labor force.

Currently, many workers who struggle to make ends meet do not qualify for the CalEITC. Parents with one child cannot qualify if their earnings exceed about \$10,000, just half of a full-time minimum wage salary, and parents with two children cannot qualify if they earn more than about \$14,000. Without a change to adjust CalEITC eligibility levels with the minimum wage, fewer workers will be eligible for the CalEITC over time as the minimum wage increases.

While expanding eligibility for the credit to more households, the state should ensure that the very poor households currently eligible for the CalEITC continue to receive at least the same credit amount even as CalEITC eligibility expands and the minimum wage increases.

Thank you for your leadership on behalf of low-income families in California.

Sincerely,

 AD29	 SD 14
 SD7	 AD40
 AD17	 SD18
 AD52	 AD18

Ana M. Leal AD 30

Janet Quynh AD 34

Justicia - AD 2

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