

SB 38: State Earned Income Tax Credit

Senator Carol Liu, 25th District

As Amended March 23, 2015

SUMMARY

SB 38 (Liu) establishes a refundable state Earned Income Tax Credit (EITC) equal to 30% of the federal EITC for eligible individuals with qualifying children and 100% of the federal rate for eligible individuals without qualifying children.

Too many California families struggle to meet basic needs even though one or both parents and/or other family members are working. According to the U.S. Census Bureau, in California nearly 70% of families living in poverty had at least one parent working in 2013. According to 2011 data, 17.8% of households reported zero or negative net worth and the average Californian currently carries \$12,693.00 of credit card debt.

In order to move California forward and reduce poverty, the state should provide opportunities for residents at every income level to succeed in the labor market and care for themselves and their children.

BACKGROUND

The federal Earned Income Tax Credit offsets the income taxes a family may owe to the U.S. government. The credit is refundable for households with an income but no tax liability. The EITC lifts 6.6 million Americans, including 3.3 million children, out of poverty each year, making it the nation's largest and most successful anti-poverty program. Research shows that the credit does more than reduce poverty and provide a short-term safety net for low-income working families

The EITC, which benefits between 25 and 30 million low- and moderate-income families, stimulates the local economy by increasing their spending power. That is in addition to the income, employment, educational, and health benefits to children that can extend into adulthood. In California, 3.2 million families, most with at least one child, claimed the EITC on their 2011 tax returns.

Twenty-five states, the District of Columbia, and two local jurisdictions (New York City and Montgomery County, Maryland) currently provide a state or local tax credit in varying forms and amounts. Credits are available only to families that earn income through work. They help ensure that people who work are able to make ends meet. Combined with the federal credit, state EITCs help families who work avoid poverty and the hardships it forces children to endure.

SOLUTION

SB 38 creates a state Earned Income Tax Credit equal to 30% of the Federal Earned Income Tax Credit for individuals with qualifying children and 100% for individuals without qualifying children. In the event that the tax credit exceeds an individual's tax liability any excess funds would first be credited against any other amounts due and the remaining balance carried forward. Upon appropriation by the legislature, excess funds may be paid from the General Fund to the eligible individual.

Further, the bill would call upon the Franchise Tax Board (FTB) to establish a pilot program for advance payment of the state EITC to eligible individuals. To help ensure access to all eligible tax payers, the bill also requires that instruction on filing taxes for an individual who is eligible for the credit be included in yearly basic tax instruction and continuing education courses.

The state Earned Income Tax Credit will help struggling families while increasing the take up rate of federal EITC, bringing more federal dollars into our state. Research indicates that children of EITC recipients do better in school, are more likely to attend college, and earn more as adults.¹ A significant investment in low- and middle-income Californians is an important step towards moving our state forward.

SUPPORT

Children's Defense Fund-California (Sponsor)

OPPOSITION

None on File

CONTACT

Darcel Sanders, Legislative Aide
Senator Carol Liu
(916) 651-4025
darcel.sanders@sen.ca.gov

¹ Earned Income Tax Credit Promotes Work, Encourages Children's

Success at School, Research Finds.

<http://www.cbpp.org/cms/?fa=view&id=3793>