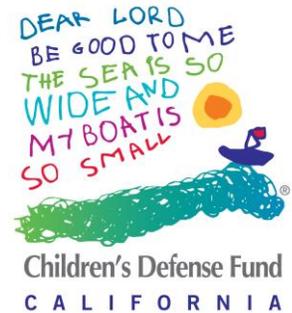


April 14, 2015

The Honorable Robert Hertzberg  
Chair, Senate Governance and Finance Committee  
State Capitol, Room 4038  
Sacramento, CA 95814  
Via facsimile: (916) 651-4918



**RE: Senate Bill 38 (Liu) – Sponsor/Support**

Dear Senator Hertzberg,

Children's Defense Fund – California (CDF-CA) is proud to sponsor and support Senate Bill 38 (Liu), which will establish a refundable state Earned Income Tax Credit equal to 30% of the federal credit for eligible individuals with qualifying children and 100% for individuals without qualifying children.

Children's Defense Fund – California is the California office of the Children's Defense Fund, a non-profit child advocacy organization that has worked relentlessly for more than 40 years to ensure a level playing field for all children. CDF-CA champions policies and programs that lift children out of poverty, protect them from abuse and neglect, and ensure their access to health care and a quality education.

**California has the Highest Child Poverty Rate in the Nation**

More than one in four California children – and one in three Black and Latino children in California – live in poverty. Growing up poor negatively impacts the entire trajectory of a child's life. Child poverty creates gaps in cognitive skills that can be seen as early as 9 months old, and those gaps continue to widen with age.<sup>i</sup> Child poverty jeopardizes children's health and their ability to learn in school.

These disadvantages of child poverty compound and produce lifetime negative consequences: children who grow up poor are less likely to find a well-paying job, more likely to have poor health and more likely to become involved in the criminal justice system.<sup>ii</sup> Ultimately, child poverty fuels the intergenerational cycle of poverty as poor children are more likely to become poor adults and parents.

**The Federal Earned Income Tax Credit is An Effective Anti-Poverty Strategy**

The federal EITC is a refundable tax credit that rewards work and reduces economic hardship by allowing low- and moderate-income families to keep more of their earnings. In 2013, the EITC lifted about 6.2 million people out of poverty, including about 3.2 million children, making it the nation's largest and most successful anti-poverty program.<sup>iii</sup> The federal EITC, together with the Child Tax Credit, lifted 1.3 million Californians, including 629,000 children, out of poverty each year between 2010 and 2012.<sup>iv</sup>

During the 2012 tax year, the average federal EITC was \$2,982 for a family with children (boosting wages by about \$249 a month).<sup>v</sup> The EITC is refundable, which means that if the credit exceeds a low-wage worker's income tax liability, the worker receives the difference as a tax refund.

The EITC is designed to encourage and reward work. The EITC is only available to those with earned income through work and the credit increases with higher earnings up to a maximum, providing an incentive to work and to work more hours. Expansion of the EITC has been shown to be the most important reason why employment among single mothers increased in the 1990s, more than the booming economy or welfare reform.<sup>vi</sup>

The EITC also has significant benefits for children's health and educational outcomes. The EITC has been shown to improve the health of infants and mothers, including reduced likelihood of low-weight or premature births.<sup>vii</sup> Research shows that children receiving larger EITCs tend to do better academically in both the short

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and long term, resulting in higher test scores for elementary and middle-school students, higher high-school graduation rates, and higher college attendance rates.<sup>viii</sup>

The benefits of the EITC extend to the next generation by increasing earnings when children reach adulthood. For children raised in low-income families, even slight increases in family income are associated with more work and higher earnings in adulthood, relative to children raised in otherwise similar circumstances.<sup>ix</sup>

### **It is Time for California to Establish a State EITC**

Twenty-five states and the District of Columbia have created a state EITC that builds on the federal credit. Combined with the federal credit, state EITCs help working families make ends meet and reduce poverty, especially among children. State EITCs are easy to administer, with nearly every dollar going directly to the working families that the credits were created to help. State EITCs also put money in the hands of people most likely to spend it, which stimulates the local economy.

**SB 38** would create a state EITC in California equal to 30% of the federal EITC 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, the credit will be refunded to the individual, upon appropriation by the Legislature.

A California EITC would benefit millions of working families struggling to make ends meet and reduce child poverty. Given that more than 3.2 million of California's households – encompassing roughly 10.3 million individuals – filed for the federal EITC in 2012<sup>x</sup>, at least this many Californians would benefit from SB 38. More than one-third of families with children would benefit from the credit.<sup>xi</sup>

Estimates by the California Budget & Policy Center find that if SB 38 were enacted, the average state credit for families in the bottom fifth of the income distribution would be \$781.<sup>xii</sup> The Legislative Analyst's Office estimated that a California EITC equal to 30% of the federal credit (not including the enhanced credit for individuals without qualifying children included in SB 38) would lift 250,000 Californians out of poverty.<sup>xiii</sup> A California EITC as outlined in SB 38 would also help rebalance the state's tax system, which currently asks low-income families to pay a larger share of their income in state and local taxes than higher-income families.<sup>xiv</sup>

SB 38 would also call upon the Franchise Tax Board to establish a pilot program for advance payment of the state EITC to eligible individuals. Such a program could enable eligible workers to receive increases in their take-home pay throughout the year to avoid financial hardship and pay monthly bills, rather than waiting to receive the credit in one lump-sum check after tax filing.

The state EITC in SB 38 could increase the percentage of eligible Californians claiming the federal credit, which would leverage more federal dollars to provide additional support to California families. Estimates suggest that only about 70 percent of eligible Californians claim the federal EITC.<sup>xv</sup> To help ensure access to all eligible tax payers, SB 38 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.

At a time when more than one in four California children live in poverty, SB 38 offers California the opportunity to reduce the state's high poverty rate by building on a proven policy to create refundable California Earned Income Tax Credit. This investment would eventually pay for itself by protecting children against the lifelong consequences and costs of poverty and reducing poverty in future generations.

For these reasons, CDF-CA respectfully requests your 'Aye' vote for SB 38. For additional information, please contact Michele Stillwell-Parvensky at [msp@childrensdefense.org](mailto:msp@childrensdefense.org) or (510) 663-1294.

Sincerely,



Alex Johnson  
Executive Director  
Children's Defense Fund – California

cc: Office of Senator Liu (Author)

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<sup>i</sup> Children's Defense Fund. "Ending Child Poverty Now." January 2015.

<sup>ii</sup> Children's Defense Fund. "Ending Child Poverty Now." January 2015.

<sup>iii</sup> Center on Budget and Policy Priorities. "Policy Basics: The Earned Income Tax Credit." January 20, 2015.

<http://www.cbpp.org/cms/?fa=view&id=2505>

<sup>iv</sup> Center on Budget and Policy Priorities. "California Fact Sheet: Tax Credits Promote Work and Fight Poverty." March 5, 2014.

<sup>v</sup> Center on Budget and Policy Priorities. "Policy Basics: The Earned Income Tax Credit." January 20, 2015.

<http://www.cbpp.org/cms/?fa=view&id=2505>

<sup>vi</sup> Center on Budget and Policy Priorities. "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds." April 3, 2015. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3793>

<sup>vii</sup> Hilary W. Hoynes, Douglas L. Miller, and David Simon, "The EITC: Linking Income to Real Health Outcomes," University of California Davis Center for Poverty Research, Policy Brief, 2013, <http://poverty.ucdavis.edu/research-paper/policy-brief-linking-eitc-income-real-health-outcomes>.

<sup>viii</sup> Michelle Maxfield, "The Effects of the Earned Income Tax Credit on Child Achievement and Long-Term Educational Attainment." Michigan State University Job Market Paper, November 14, 2013,

<https://www.msu.edu/~maxfiel7/20131114%20Maxfield%20EITC%20Child%20Education.pdf>

<sup>ix</sup> Greg Duncan, Kathleen Ziol-Guest, and Airel Kalil. "Early Childhood Poverty and Adult Attainment, Behavior, and Health." *Child Development*, January/February 2010, pp. 306-325.

<sup>x</sup> Legislative Analyst's Office. "Options for a State Earned Income Tax Credit." December 18, 2014.

<sup>xi</sup> California Budget Project . 2014. "A State EITC: Making California's Tax System Work Better for Working Families"

<sup>xii</sup> California Budget & Policy Center. "How Would Current State EITC Proposals Benefit California's Workers and Their Families?" April 8, 2015.

<sup>xiii</sup> Legislative Analyst's Office. "Options for a State Earned Income Tax Credit." December 18, 2014.

<sup>xiv</sup> California Budget Project . 2014. "A State EITC: Making California's Tax System Work Better for Working Families"

<sup>xv</sup> California Budget Project . 2014. "A State EITC: Making California's Tax System Work Better for Working Families"