

# CALIFORNIA ACORN



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## RECOMMENDATIONS TO ESTABLISH A CALIFORNIA EITC

CALIFORNIA WORKING FAMILIES POLICY SUMMIT  
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### INTRODUCTION

In California, 13.2% of families live below the poverty line. Many of these families have a working family member. About 31% of the families include a full-time worker, and approximately 39% include at least a part-time worker<sup>1</sup>. Despite their commitment to work and because of the high cost of living, these families are not able to make ends meet. The establishment of a state Earned Income Tax Credit (EITC) will help more working families earn enough to live above the poverty line.

Established in 1975, President Ronald Reagan once called the federal EITC “the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.”<sup>2</sup> California should have a state EITC to continue this work.

The EITC increases employment among single parents. In two published studies, Meyer and Rosenbaum found that the federal EITC expansions instituted between 1984 and 1996 were responsible for more than half of the large increase in employment among single mothers during that period.<sup>3</sup> They also found that the most significant gains in employment traceable to the EITC were for mothers with young children and mothers with low education levels.

National census data show that in 2003, the EITC lifted 4.4 million people out of poverty, including 2.4 million children. Without the EITC, the poverty rate among children would have been nearly one-fourth higher. Census data also indicate that the EITC lifts more children out of poverty than any other single program or category of programs.<sup>4</sup>

Twenty-one states already have their own Earned Income Tax Credit programs. EITCs have been enacted in states controlled by both Republicans and Democrats and have been supported by both business groups and social service advocates.

A state EITC in California will reward working families and put millions of dollars into their pockets to help with their expenses and keep their family finances more stable.

## **POLICY OBJECTIVE #1**

### **Establish a California EITC to work with the Federal EITC to lift more California working families out of poverty.**

#### ***Background***

A state EITC will benefit our state and working families in several ways. First, the EITC will stimulate the economy at the state and local levels by providing additional income to low-income working families. In most cases, these families will use their additional dollars to purchase basic necessities, thus increasing spending and sales tax revenues in local communities. Second, a state EITC encourages parental employment, lifts family incomes, and improves school achievement for children in pre-school and elementary school, according to new evaluations of welfare reform programs that assess employment-based fiscal incentives like the EITC.<sup>5</sup> Third, a state EITC helps keep families from needing TANF, housing assistance and other government programs by rewarding work and increasing take-home pay for parents.

When adopting a state EITC, most states make the state EITC a percentage of the federal EITC. An EITC that piggybacks on the federal credit is relatively easy for a state to administer and also is easy for families claiming the EITC. To determine its state EITC benefit, a family need only write its federal benefit on its state return and then multiply the federal amount by the state EITC percentage.

It is important that the state EITC be refundable. A refundable EITC will allow families to benefit from the full value of the credit they have earned even if they owe less in income tax than the amount of the credit. If the amount of the EITC exceeds the amount of income tax owed, the difference is paid back to the filer in the form of a “refund.”

In 2005, there were 2,389,281 income tax filers from California claiming the federal EITC. An additional 421,638 families are estimated as eligible for the federal EITC, but are not claiming it.<sup>6</sup>

A state EITC will lift the working poor out of poverty. Research suggests that if a state EITC existed in California and were combined with the federal EITC and the recently increased minimum wage, the income of a family of four with a single full-time worker would slightly *exceed* the federal poverty level.<sup>7</sup>

Even more Californians could be lifted out of poverty with effective community outreach to make eligible filers aware of the credit that is available. The people most likely not to be receiving the federal EITC are low income, renters, the elderly, and people for whom English is a second language. Getting these families to file for the federal EITC would bring an additional \$579,523,890 into the state.<sup>8</sup>

A report commissioned by the Casey Foundation documented that an ACORN door-to-door outreach program was effective in increasing the number of people who applied for EITC in San Antonio, Texas. ACORN canvassers distributed 50,000 flyers that included the addresses of Volunteer Income Tax Assistance (VITA) sites throughout the city to inform people that they could receive free tax preparation, including assistance with EITC. The Casey report credited this effort with increasing the number of VITA clients from 14,000 in 2003 to 23,000 in 2005. A comparable outreach effort for EITC in California would help more working families and bring in federal dollars to benefit the state.<sup>9</sup>

For California to implement a state EITC at 15% of the federal EITC, it would cost the state about \$700 million (15% of federal EITC dollars).

In light of California's structural deficit, in implementing an EITC the Legislature should ensure that the program is budget neutral – that its \$700 million cost is balanced by a matching increase in revenue to the state. The Legislature should fund a state EITC by closing unfair tax loopholes.

### ***Recommended Actions***

- A. The Legislature should pass AB 21, authored by Assemblyman Dave Jones, to establish a state Earned Income Tax Credit at fifteen percent of the federal credit. The state EITC should be refundable to counter the state's regressive tax structure. A refundable state EITC would supplement the federal tax credit and lift more California families out of poverty.
- B. The Governor and California State Legislature should fund a community-outreach program to help more than 400,000 eligible families file for the federal EITC.
- C. The Legislature should request that the Legislative Analysts Office estimate the state tax revenues that would be generated from the additional federal EITC dollars in the state resulting from additional community outreach.
- D. The Legislature should ensure fiscal neutrality in creating an EITC by closing tax loopholes and outmoded tax expenditures. In doing so, the Legislature should rely on the technical expertise of the Franchise Tax Board. Any options for modifying the tax code should be discussed in open legislative hearings in order to consider the pros and cons of any particular change.

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<sup>1</sup> [http://www.ppic.org/content/pubs/jtf/JTF\\_PovertyJTF.pdf](http://www.ppic.org/content/pubs/jtf/JTF_PovertyJTF.pdf).

<sup>2</sup> President Ronald Reagan, Remarks on Signing the Tax Reform Act of 1986 (Oct. 22, 1986).

<sup>3</sup> See Bruce D. Meyer and Dan T. Rosenbaum, "Making Single Mothers Work: Recent Tax and Welfare Policy and its Effects." In Bruce D. Meyer and Douglas Holtz-Eakin, eds., *Making Work Pay: The Earned Income Tax Credit and Its Impact on America's Families* (New York: Russell Sage Foundation, 2001) and Bruce D. Meyer and Dan T. Rosenbaum, "Welfare, The Earned Income Tax Credit, and the Labor Supply of Single Mothers." *Quarterly Journal of Economics* 116(3): 1063-2014. Less research has been done on the impact of the EITC on work effort by married couples. Findings from two studies suggest that married women in two-earner families that receive the EITC work somewhat less because of the EITC. Whether this is a desirable or undesirable result depends on one's view of whether it is beneficial or harmful for one of the parents in a two-earner family to work less and spend more time caring for the couple's children; a number of economists and analysts from across the political spectrum have argued this should not be viewed as a negative outcome. See David T. Ellwood, "The Impact of the Earned Income Tax Credit and Social Policy Reforms on Work, Marriage, and Living Arrangements," in Meyers and Holtz-Eakin, *Making Work Pay*.

<sup>4</sup> Analysis of Current Population Survey data by the Center on Budget and Policy Priorities. In 2003, the EITC reduced the number of children in families with below-poverty disposable income from 12.6 million to 10.2 million and the number of Americans (all ages) in families with below-poverty disposable income from 35.3 million to 30.9 million, a decline of 4.4 million. This analysis uses a measure of poverty that counts food, housing, and energy assistance benefits as income and subtracts income and payroll taxes.

<sup>5</sup> <http://www.uw.org/Newsletter/2006/December/13/Articles/Impact.htm>.

<sup>6</sup> From the Brookings Institute, see <http://www.brookings.edu/urban/eitc>.

<sup>7</sup> See Figure 3 in the report, "Together, State Minimum Wages And State Earned Income Tax Credits Make Work Pay" <http://www.cbpp.org/7-12-06sfp.htm>

<sup>8</sup> Based on the Brookings Institute estimate of 421,638 tax payers in California who qualify for the federal EITC. If 75% of these people filed for the federal EITC and got the average refund for California (\$1833) then this would add up to over \$579 million.

<sup>9</sup> *Research on Social Work Practice*, Vol. 16 No. 4, July 2006 369-381.