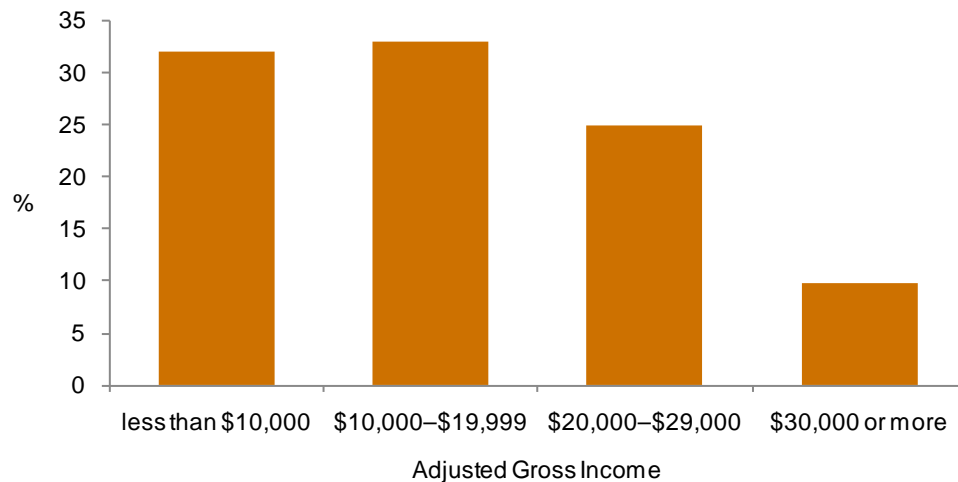


FEBRUARY 2010

- **A FEDERAL TAX CREDIT CAN SUBSTANTIALLY SUPPLEMENT THE INCOMES OF WORKING FAMILIES.**
The Earned Income Tax Credit (EITC) offsets the income taxes a family may owe to the U.S. government. It is paid as a refund even if the filer owes no taxes. The maximum amount a family can receive varies by year and depends on the number of children in the family and the family's adjusted gross income. The family must also report mostly income from earnings rather than investments. For tax year 2009, the EITC will provide up to \$3,043 to working families with one child, \$5,028 to those with two children, and \$5,657 to those with three or more children. Single tax filers with low incomes may also be eligible for a small credit. About two-thirds of California claimants in 2006 had adjusted gross incomes of less than \$20,000 a year.
- **THE EITC REACHES MORE FAMILIES WITH CHILDREN THAN CASH PAYMENTS AND FOOD ASSISTANCE.**
In California, 2.5 million families (12% of state taxpayers), most with at least one child, claimed \$5.2 billion in credits on their 2008 tax returns and received, on average, a \$2,039 tax refund. Government outlays on the EITC are substantially higher than federal and state expenditures on Temporary Assistance for Needy Families (TANF) cash assistance (\$3.3 billion to 0.5 million families) and Supplemental Nutrition Assistance Program (SNAP) benefits (\$3.0 billion to 0.9 million families). In 2008, California had similar shares of the nation's EITC claimants (11%) and population (12%).
- **CALIFORNIA DOES NOT HAVE ITS OWN EITC.**
Although 23 states have their own state-funded EITC, California does not. These state EITCs are typically calculated as a percentage of the federal credit and are added on to the federal credit. Roughly speaking, seven states paid out less than 10% of the federal amount claimed in their state; six states paid out 25% or more. California state law does require employers to notify employees that they may be eligible for the federal credit.
- **MOST EITC CLAIMANTS PAY TO HAVE THEIR TAX RETURNS PREPARED ...**
A solid majority of all tax filers pay to have their returns prepared, but EITC filers do so more often. In California, 76% of those claiming the EITC in 2006 paid to have their returns prepared. Most of the rest prepared their returns themselves. While the use of free tax preparation services organized by nonprofit groups has nearly doubled in California since 2000, only 1.6% of EITC claimants used such services in 2006.
- **... AND MANY EITC CLAIMANTS PAY ADDITIONAL FEES.**
Paid tax preparers commonly offer to set up short-term bank accounts to receive an electronic refund. The service, known as a Refund Anticipation Check (RAC), enables taxpayers to pay tax preparation fees out of their refunds instead of up front. The Refund Anticipation Loan (RAL), another common service, promises quick cash—although IRS processing time is as short as eight to fifteen days. Both RACs and RALs carry fees that can exceed a hundred dollars. Across California's counties, between 10% and 48% of EITC filers made use of a RAL or RAC in 2006, compared to about half of EITC claimants in the rest of the United States. California is one of 13 states to regulate RALs.



Annual Income of EITC Claimants in California, 2006



Requests for Refund Anticipation Loans and Checks Across California Counties, 2006

County	% of EITC Filers	County	% of EITC Filers	County	% of EITC Filers
Alameda	31	Marin	10	San Mateo	18
Alpine	34	Mariposa	30	Santa Barbara	25
Amador	28	Mendocino	30	Santa Clara	20
Butte	36	Merced	39	Santa Cruz	24
Calaveras	26	Modoc	17	Shasta	39
Colusa	24	Mono	15	Sierra	14
Contra Costa	31	Monterey	36	Siskiyou	30
Del Norte	37	Napa	20	Solano	40
El Dorado	25	Nevada	22	Sonoma	23
Fresno	44	Orange	23	Stanislaus	37
Glenn	32	Placer	27	Sutter	30
Humboldt	22	Plumas	26	Tehama	36
Imperial	36	Riverside	39	Trinity	17
Inyo	28	Sacramento	38	Tulare	41
Kern	48	San Benito	25	Tuolumne	35
Kings	48	San Bernardino	43	Ventura	29
Lake	39	San Diego	31	Yolo	29
Lassen	37	San Francisco	14	Yuba	36
Los Angeles	32	San Joaquin	43		
Madera	37	San Luis Obispo	25		

Sources: Brookings EITC Interactive Data (www.brookings.edu/projects/EITC.aspx). IRS Stakeholder Partnerships, Education, and Communication (SPEC). National Consumer Law Center (February 2009).

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