Understanding the Reach of the California Earned Income Tax Credit

December 5, 2023

Tess Thorman
State tax credits support low-income families

- The California Earned Income Tax Credit (CalEITC) has grown since its introduction for Tax Year 2015
  - Originally designed to complement federal EITC
  - Now complemented by
    - Young Child Tax Credit (TY 2019)
    - Foster Youth Tax Credit (TY 2022)
- Targeted to residents with incomes below state tax filing threshold
- More to learn about how well CalEITC reaches Californians
CalEITC is smaller than the federal EITC

<table>
<thead>
<tr>
<th></th>
<th>Total $ (TY 2021)</th>
<th>N claims (TY 2021)</th>
<th>Max credit (TY 2022)</th>
<th>Average credit (TY 2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalEITC</td>
<td>$700 million</td>
<td>3.6 million</td>
<td></td>
<td>$195</td>
</tr>
<tr>
<td>No children</td>
<td></td>
<td></td>
<td>$275</td>
<td>$102</td>
</tr>
<tr>
<td>Any children</td>
<td></td>
<td></td>
<td>$3,417</td>
<td>$429</td>
</tr>
<tr>
<td>Federal EITC in CA</td>
<td>$6 billion</td>
<td>3.3 million</td>
<td></td>
<td>$1,857</td>
</tr>
<tr>
<td>No children</td>
<td></td>
<td></td>
<td>$600</td>
<td></td>
</tr>
<tr>
<td>Any children</td>
<td></td>
<td></td>
<td>$7,430</td>
<td></td>
</tr>
<tr>
<td>Young Child Tax Credit</td>
<td>$350 million</td>
<td>0.4 million</td>
<td>$1,083</td>
<td>$927</td>
</tr>
<tr>
<td>Foster Youth Tax Credit</td>
<td>n/a</td>
<td>n/a</td>
<td>$1,083</td>
<td>n/a</td>
</tr>
</tbody>
</table>
Credit claiming varies across the state

- The “claims ratio” is the ratio of claims to families with incomes under $30,000, who might be eligible for CalEITC
- The claims ratio tends to be lower in the San Joaquin Valley and the state’s northern region, and higher in Orange, San Diego, and eastern LA Counties
- Claims ratios also vary within urban areas
Claims ratios are above average when Latino populations are relatively large

% difference from statewide average

- Small share of population
- Medium share
- Large share
On average, CalEITC dollars are distributed proportionally

- “Dollars ratio” helps assess how CalEITC dollars are being distributed across zip codes
  - A one-to-one ratio means that dollars are evenly distributed
- Distribution of CalEITC spending across counties is largely aligned with the distribution of potentially eligible households
Dollars ratios are above 1:1 in communities where a relatively large share of residents are Latino.
Credits are claimed early in high-eligibility communities

- 42 percent of all YCTC claims had been processed by the end of February 2022, and 28 percent of CalEITC claims
  - Higher shares claimed early in Central Valley, Inland Empire, and northern zip codes
- Higher early claiming in communities where more residents have children, or low incomes
- Lower early claiming where more residents are noncitizens
Conclusions

- CalEITC claiming varies across the state, but on average, credit dollars are distributed proportionally.
- Communities with more Latino members claim CalEITC at higher rates.
- Claiming is lower and happens later in the year when more residents are non-citizens.
  - This could reflect barriers to filing or to filing early, or successful outreach.
- Additional evidence that credit may be an incentive to file early.
Notes on the use of these slides

These slides were created to accompany a presentation. They do not include full documentation of sources, data samples, methods, and interpretations. To avoid misinterpretations, please contact:

Tess Thorman (thorman@ppic.org; 415-291-4449)

Thank you for your interest in this work.