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Understanding the Reach of the California Earned Income Tax Credit

State-designed and -funded tax credits for low-income families are a small but growing part of California's anti-poverty portfolio. As state policymakers explore ways to refine, increase, and supplement the California Earned Income Tax Credit (CalEITC), they could benefit from knowing more about where and when the CalEITC and similar credits are claimed.

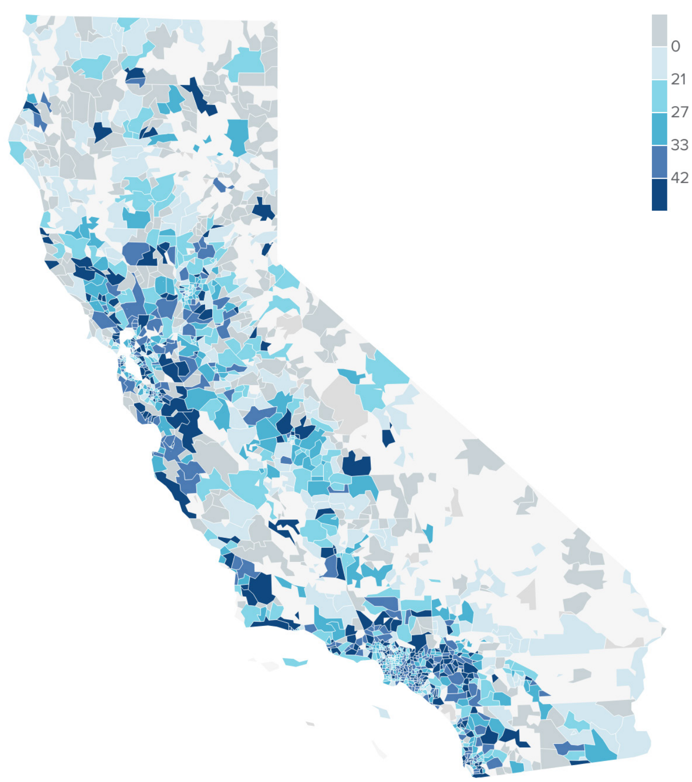
CalEITC Supports Low-Income Families

The CalEITC, introduced in the 2015 tax year, was originally designed to complement the federal EITC; it remains most generous to Californians with incomes too low to receive the maximum EITC. A better understanding of the factors associated with credit claiming can help the state increase participation.

Credit claiming varies across the state. Before adjusting for local poverty and family size and composition differences, the claims ratio—the ratio of claims to families with incomes under $30,000, who might be eligible for the credit—tends to be lower in the San Joaquin Valley and the state's northern region, and higher in areas including eastern Los Angeles County, Orange County, and San Diego County. Claims ratios also vary within urban areas.

The ratio of CalEITC claims to potentially eligible families varies across the state

Number of claims for every 10 families with incomes under $30,000



Sources: Author's analysis of Franchise Tax Board (2022) and ACS 5-year Summary File (2017–21) data.
Notes: Map shows ratios of claims to number of families with incomes under $30,000 in terms of number of claims per 10 families, by quintile, based on claims as of December 31, 2022. Zip codes shaded grey omitted; see Technical Appendix A for details.

CalEITC dollars are distributed proportionally. On average, the distribution of CalEITC dollars across counties is largely aligned with the distribution of households with incomes under $30,000. This ratio of state CalEITC spending to potentially income-eligible families—the dollars ratio—is closely related to the claims ratio, suggesting that boosting claims might lead to more proportionate distribution in areas where the ratio of state CalEITC spending to income-eligible families is low.

In communities with more CalEITC claims, filers tend to claim credits earlier in the year. Although claims ratios are lower in communities with large numbers of low-income residents, higher shares in these communities claim their credits early. This probably indicates that many people file early when know they can get a substantial refund, although it could also point to successful outreach over the course of the year to low-income residents of wealthier areas.

Communities with more Latino members tend to claim CalEITC at higher rates. Claims and dollars ratios are higher in communities with more Latino residents, and lower for communities where more residents are white, even given economic differences. This is the case despite the fact that claims and dollars ratios are lower in communities with more noncitizens, which may be linked to barriers to filing tax returns or limited awareness of credit eligibility among undocumented residents.

Policy Considerations

Our analysis indicates that CalEITC generally functions in a manner consistent with its design. Given that credit claiming varies across demographic groups, however, and that low estimated take-up of the federal EITC suggests take-up of the CalEITC may also be low, there is room for improvement. The state could take several steps to boost CalEITC claiming:

Learning from Latino communities. One fruitful avenue for improving take-up statewide could involve learning from Latino communities about best practices for encouraging and facilitating credit claiming. Research on tax filing in Latino communities is limited, although there is some evidence that, historically, Latino tax filers nationwide have been more likely than others to pay for tax preparation services—which could maximize their credit claiming. Future research should explore whether this trend has persisted and whether it is connected to higher CalEITC claims—and, if so, what elements might be replicable.

Reducing barriers for eligible noncitizens. Streamlining the process of getting an ITIN and encouraging newly eligible undocumented residents to file with ITINs might help address lags in claims ratios in communities with more noncitizen residents. Increases in the dollars ratio in these communities over the course of the year indicate that efforts to boost claiming among undocumented residents might already be having an impact. It could be helpful to determine whether any of these efforts are effective and can be scaled up—or whether later claims reflect delays in filing or processing that could be addressed.

Conducting outreach throughout the year and identifying reasons for delays. Overall, claims in communities with more residents likely to be CalEITC eligible tend to be filed earlier in the year than claims in other communities. Those who know they are eligible for a meaningful credit based on outreach or prior experience certainly have an incentive to file early. However, our finding that claims among low-income residents in wealthier areas increase over the course of the year indicates that outreach may be having a large relative impact in these areas. A better understanding of the role played by outreach in these communities could provide insight into mechanisms for improving take-up.

In the near term, the state has been focusing on engaging Californians who might be eligible for the CalEITC: in 2022, policymakers authorized $20 million for CalEITC outreach over a two-year period. A key challenge is finding ways to reach those with incomes so low that they are not required to file taxes—particularly given that most filers are eligible for only small credits because they have no qualifying children.

Adapted by Mary Severance from *Understanding the Reach of the California Earned Income Tax Credit*, by Tess Thorman.