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A Working Families Tax Credit Could Help Californians Make Ends Meet

California has both the fifth-largest economy in the world and the highest poverty rate of the 50 states when accounting for the cost of living. Wages for the highest-paid workers have been growing, but those for mid- and low-wage workers have been stagnant, while rents have been rising faster than median annual earnings. As a result, many working- and middle-class families in California find themselves struggling to afford the high cost of housing and maintain economic security.

A refundable state tax credit is a promising strategy to help these families make ends meet. As a policy modeled on the established and successful federal Earned Income Tax Credit (EITC) and state CalEITC, this type of credit could represent a feasible and effective state-level approach to helping families who are struggling to keep up with the rising cost of living.

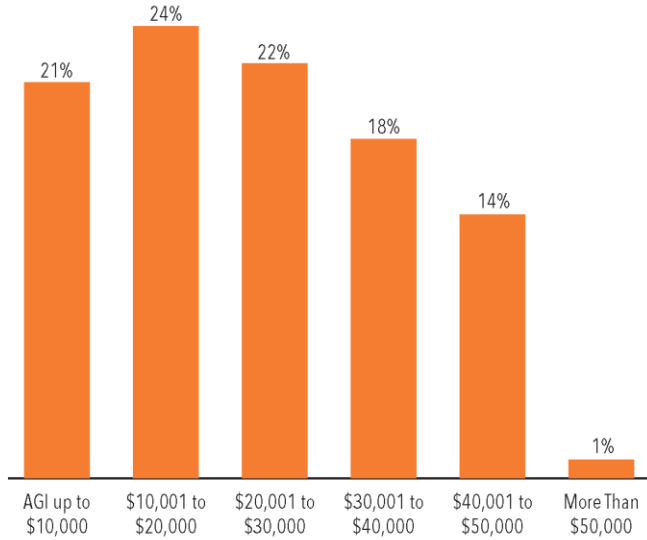
This brief describes the projected impact in California of a specific proposal for a refundable state tax credit, the Working Families Tax Credit proposed by the Economic Security Project (ESP) and modeled by the California Budget & Policy Center at ESP's request.¹ This proposed refundable tax credit would be available to working tax filers with up to about \$50,000 in annual income. The credit amount would generally equal a 50% match of a tax filer's federal EITC amount, increased to a minimum of \$1,200 where a 50% match would be less than \$1,200, with a 25% phase-in and phase-out at the lowest and highest eligible incomes. Tax filers age 19 and older without dependents would be eligible for the credit, in contrast to the federal EITC, which limits eligibility for filers without dependents to those age 25 to 64. A baseline credit of \$1,200 would also be available to tax filers whose dependents are under age 6 or age 70 or older or have disabilities, and for postsecondary students age 19 or older attending school at least half-time, in order to reach individuals who are engaged in unpaid caregiving work or who are building work skills and have very little or no income from employment.

Nearly Half of All Californians Live in Households That Could Benefit From the Proposed Credit

An estimated 7.5 million tax filers would be eligible for the proposed Working Families Tax Credit, according to Budget Center calculations (based on 2015 data), and the credit would benefit all individuals in their households. Almost half of the eligible tax filers would have annual incomes of \$20,000 or less and just over half would have incomes between \$20,000 and \$50,000. Nearly half of California residents (46%) – or 18.0 million individuals, including 4.3 million children age 0 to 18 – live in households with one or more individuals who would be eligible for the proposed credit, according to Budget Center estimates.

The Working Families Tax Credit Would Help Tax Filers With Low and Middle Incomes in California

Tax Filers by Adjusted Gross Income (AGI), as Share of Those Eligible for the Proposed WFTC



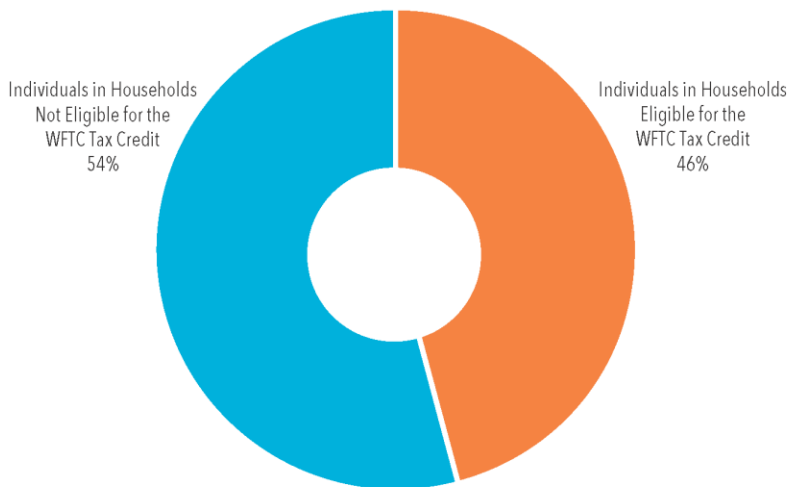
Note: Based on parameters for the Working Families Tax Credit (WFTC) proposed by the Economic Security Project, modeled with 2015 data. Analysis uses an income tax simulation model developed for the California Poverty Measure, a project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California.
Source: Budget Center analysis of US Census Bureau, American Community Survey data



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Nearly Half of All Californians Live in Households That Could Benefit From the Working Families Tax Credit

Eligibility to Benefit From the Proposed WFTC in California



Note: Beneficiaries include all individuals in households of California tax filers eligible for the Working Families Tax Credit (WFTC) proposed by the Economic Security Project. Based on parameters for the WFTC modeled with 2015 data. Analysis uses an income tax simulation model developed for the California Poverty Measure, a project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California.
Source: Budget Center analysis of US Census Bureau, American Community Survey data

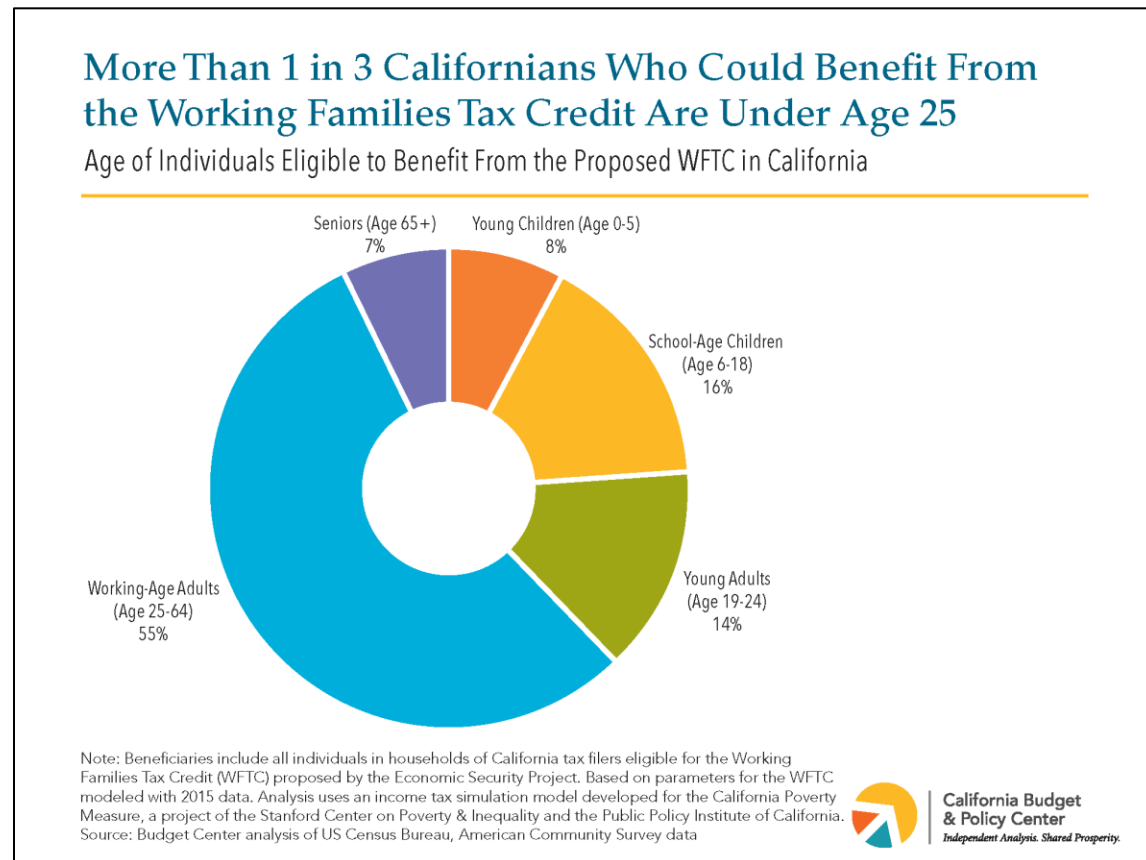


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Among eligible tax filers, the estimated average credit would be about \$1,300 and the median credit would be \$1,200, equivalent to \$100 per month. The total estimated cost of the credit, assuming 100% take-up among eligible filers, would have been \$9.807 billion in 2015 (equivalent to \$10.147 billion, inflated to 2017 dollars).

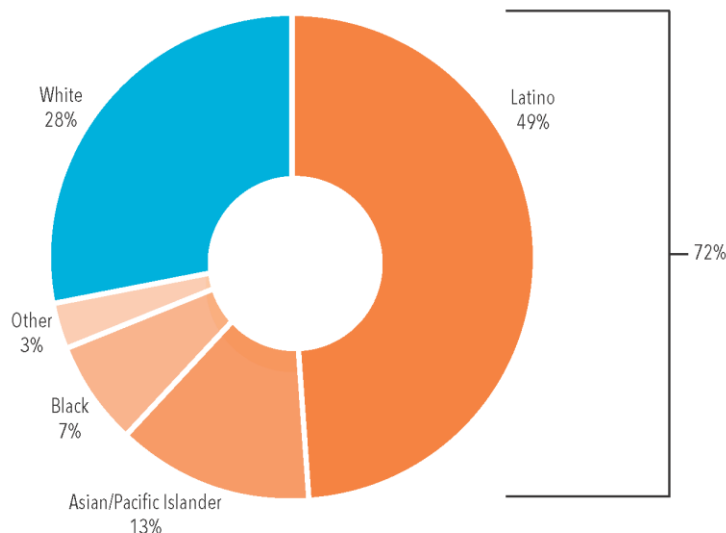
Young People and People of Color Would Particularly Benefit From the Credit

The proposed credit would benefit Californians of all ages, concentrated among working-age adults and their children. Nearly 1 in 4 individuals in households eligible for the credit would be children, according to Budget Center estimates, and another 1 in 7 (14%) would be young adults age 19 to 24. About half of individuals benefiting would be between the ages of 25 and 64. Nearly 3 in 4 individuals in households eligible to benefit from the credit would be people of color.



Nearly 3 in 4 Californians Who Could Benefit From the Working Families Tax Credit Are People of Color

Race/Ethnicity of Individuals Eligible to Benefit From the Proposed WFTC in California



Note: Beneficiaries include all individuals in households of California tax filers eligible for the Working Families Tax Credit (WFTC) proposed by the Economic Security Project. Based on parameters for the WFTC modeled with 2015 data. Analysis uses an income tax simulation model developed for the California Poverty Measure, a project of the Stanford Center on Poverty & Inequality and the Public Policy Institute of California. Source: Budget Center analysis of US Census Bureau, American Community Survey data



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The Proposed Credit Would Reduce Poverty and Child Poverty in California

With the proposed Working Families Tax Credit added to the family resources of eligible tax filers, California's poverty rate under the Supplemental Poverty Measure (SPM) would drop by 2.1 percentage points, from 20.5% to 18.3%, a relative decline of 10%, according to Budget Center estimates (based on 2013-2015 data).² California's child poverty rate would drop by 3.1 percentage points, from 23.6% to 20.5%, a relative reduction of 13%. These reductions in poverty are larger than the reductions in the national SPM poverty rate attributable to major safety net supports such as food assistance through the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), housing subsidies, or disability payments. Deep poverty in California – or the share of individuals with family resources less than half of the SPM threshold – would also be reduced by the proposed Working Families Tax Credit, with a relative decline of 12% overall and 13% for children, according to Budget Center estimates.

¹ The projected impact of the credit was modeled by the California Budget & Policy Center using 2015 data from the US Census American Community Survey (ACS) and 2013-2015 data from the Current Population Survey (CPS), downloaded from IPUMS-USA (www.ipums-usa.org) and IPUMS-CPS (www.ipums-cps.org), University of Minnesota. The analysis of ACS data uses an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty and Inequality and the Public Policy Institute of California. Results presented in this brief assume that all eligible tax filers claim the credit. For more information about this methodology or these estimates, contact Sara Kimberlin at skimberlin@calbudgetcenter.org.

² The Supplemental Poverty Measure (SPM) is an improved measure of poverty that addresses many shortcomings of the official federal poverty measure, for example by accounting for local differences in the cost of living and by including non-cash supports like tax credits and food assistance as part of family resources. See <https://www.census.gov/library/publications/2017/demo/p60-261.html>.