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California's Opportunity to Support All Immigrant Families & Communities - Extending the CalEITC and Young Child Tax Credit

The CalEITC (California's Earned Income Tax Credit) has been significantly strengthened and expanded since 2015, when first enacted, thanks to Governor Newsom and policymakers who championed the credit in both houses of the Legislature. However, hundreds of thousands of immigrant workers who are paid low wages and their children remain excluded from receiving the CalEITC (as well as from the new Young Child Tax Credit). Although the Assembly and Senate made it a priority to extend the CalEITC to these workers earlier this year, this proposal was left out of the final budget deal. Given considerable ongoing interest in this policy as a way to further help working families and individuals in California, this memo highlights new analyses that can be used to support making the CalEITC and Young Child Tax Credit inclusive of all immigrant families who file taxes and earn low wages.

Children whose parents have the exact same earnings face huge after-tax income disparities because of inequities in the tax code

Tax filers and their children must have Social Security Numbers (SSNs) that are valid for employment to qualify for the CalEITC, Young Child Tax Credit, and federal EITC. In addition, to be claimed for the federal Child Tax Credit, children must have SSNs that are valid for work. These policies prevent many immigrant workers and their children from accessing the benefits of tax credits that are proven tools for cutting poverty and helping people afford basic needs.

These exclusions cause huge disparities in after-tax income for children whose parents have *exactly the same earnings*. This can be seen when looking at an example of two US citizen children whose mother works part-time at the minimum wage and makes \$12,000 in 2019.

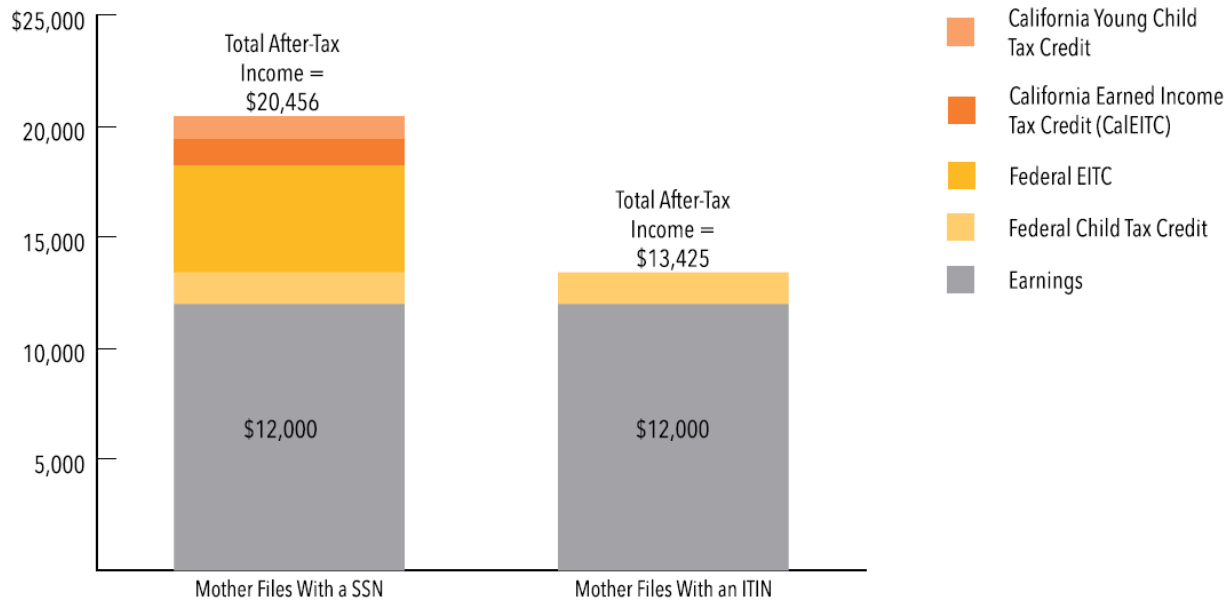
If the mother files her taxes with a SSN that's valid for work, the family's after-tax income would be over \$20,000. That's because the family would qualify for the California Young Child Tax Credit, the CalEITC, the federal EITC, and the federal Child Tax Credit. Together those four tax credits would boost the family's earnings by 70%. (See chart, page 2.)

In contrast, if the mother files her taxes with an ITIN, the family's after-tax income would be just over \$13,000 – \$7,000 *lower* than if the mother filed with a SSN. That's because the family would *not* qualify for the California Young Child Tax Credit, the CalEITC, or the federal EITC. (The family would qualify for the federal CTC because the children, as US citizens, have SSNs.)

In other words, the exclusion of people who file taxes with ITINs from these credits means that similarly situated families are treated very differently by the tax code, with significant consequences for families' ability to achieve economic security.

Tax Credit Exclusions Cause Huge Disparities in After-Tax Income for Children Whose Parents Have the Same Earnings

Two Children Whose Mother Works Part-Time at the State Minimum Wage in 2019



Note: SSN=Social Security Number valid for work. ITIN=Individual Taxpayer Identification Number. Analysis assumes both children have SSNs. These families do not owe state or federal income tax. Source: Budget Center analysis of Section 17052 of the California Revenue and Taxation Code and Section 32 of Title 26 of the Internal Revenue Code

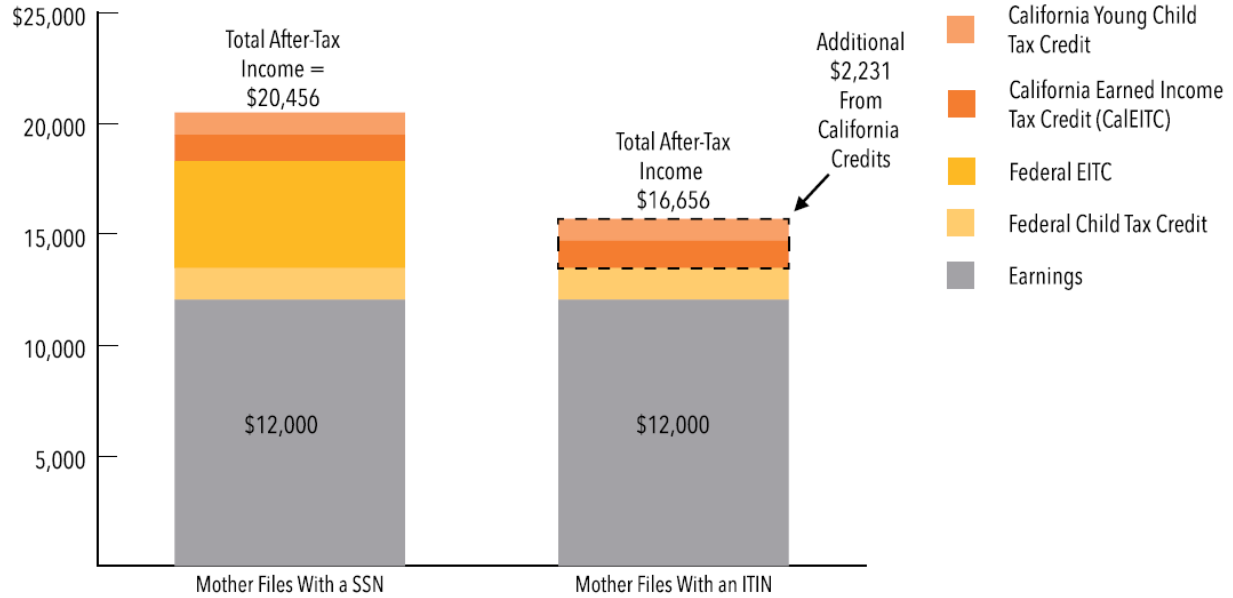


Making California's refundable credits more inclusive of immigrant workers would reduce gaps in after-tax income for children whose parents have exactly the same earnings. In the previously discussed example, if tax filers using ITINs were eligible for the CalEITC and California's Young Child Tax Credit, the family's after-tax income would increase by about \$2,200 to \$16,656. Although the family would still have a lower income than if the mother had filed with a SSN because they would remain excluded from federal EITC, they would be better off with access to California's credits than without. (See chart, page 3.)

This analysis compares families with children who are US citizens because the vast majority of children who are excluded from the CalEITC and Young Child Tax Credit are US citizens – they are excluded because of their parents' immigration status. Specifically, 84% of children excluded from the CalEITC and 92% of children excluded from the Young Child Tax Credit are US citizens.

Inclusive California Credits Would Reduce Gaps in After-Tax Income for Children Whose Parents Have the Same Earnings

Two Children Whose Mother Works Part-Time at the State Minimum Wage in 2019



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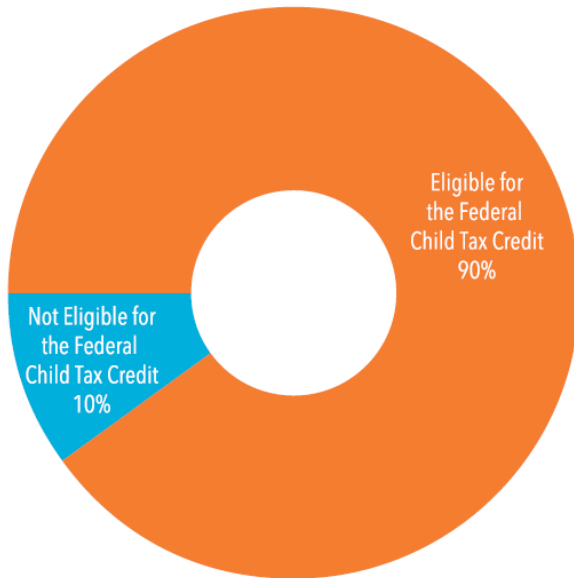
Federal Child Tax Credit helps more immigrant families than California's own child tax credit

Immigrants are vital to California's workforce and social fabric. California is home to more than 10 million immigrants, who represent more than one-quarter (27%) of the state's population – a larger percentage than any other state.

Yet, California's Young Child Tax Credit *does less* for children of immigrants than the federal Child Tax Credit, even after the Trump Administration excluded 1 million of these children from the credit. Specifically, because of the Tax Cuts and Jobs Act (TCJA), the federal Child Tax Credit is now available *only* to children with SSNs. Parents with ITINs can still claim the credit, but only for children with SSNs. In contrast, California's Young Child Tax Credit is not available to any children whose parents have ITINs, even if the children have SSNs. In other words, California's credit is more restrictive than the federal credit. In fact, 90% of the children who are excluded from California's Young Child Tax Credit are eligible for the federal Child Tax Credit. (See chart, page 4.)

Most Children Excluded From California's Young Child Tax Credit Are Eligible for the Federal Child Tax Credit

Percentage of Children Under Age Six Excluded From California's Young Child Tax Credit (YCTC)



Note: Federal Child Tax Credit includes the partially refundable "Additional Child Tax Credit." Estimates are for children who are excluded from the YCTC in tax year 2019 because they or their parents do not have Social Security Numbers valid for work. Source: Budget Center analysis of US Census Bureau, American Community Survey data



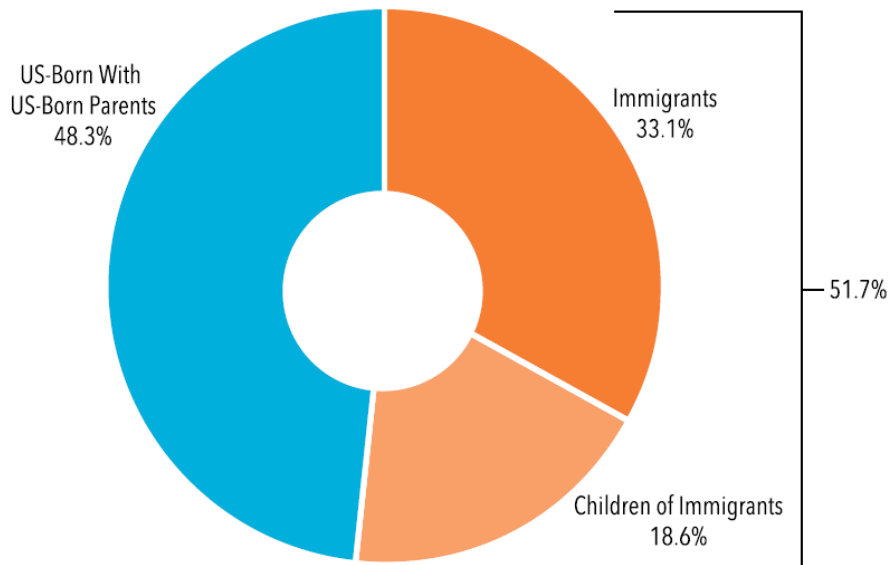
Supporting people who are the backbone of our economy and investing in students and our future workforce

Immigrants are vital to California's workforce. A total of 6.3 million immigrants were employed in California in 2017, representing 1 in 3 workers. Immigrants and children of immigrants made up half of all workers between 2016 and 2018. (See chart, page 5.)

The Californians who stand to benefit the most from a more inclusive CalEITC and Young Child Tax Credit include farm workers, cooks, housekeeping cleaners, construction laborers, grounds maintenance workers, and janitors, according to our estimates. These workers are engaged in important, but low-paid — and often unstable — work. Extending the CalEITC and Young Child Tax Credit to these workers would improve their economic security and invest in their children who are learning in our K-12 classrooms and higher education campuses, and will be among the future workforce California needs to maintain a strong economy.

Half of All California Workers Are Immigrants or Children of Immigrants

Immigrant Status of Employed Individuals in California, 2016-2018



Note: Categories are mutually exclusive. Data include employed civilians age 15 or older.
Source: Budget Center analysis of US Census Bureau, Current Population Survey data



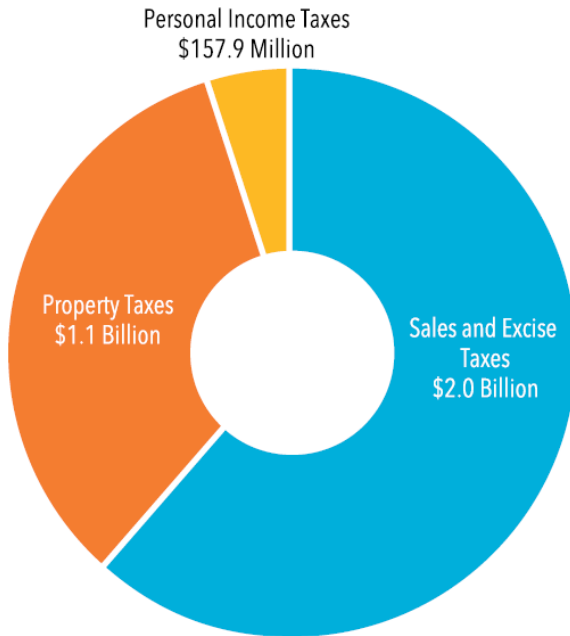
Immigrants are tax filers and should benefit from tax credits too

Immigrants – regardless of status – contribute billions of dollars in state and local revenues by paying taxes and are a vital part of California’s economy and social fabric. It’s estimated that undocumented immigrants alone contribute *over \$3 billion annually* to California’s state and local tax system, including by paying personal income taxes using ITINs. (See chart, page 6.) Although they are tax filers, workers using ITINs, who include undocumented workers, are unable to access the CalEITC and Young Child Tax Credit.

The exclusion of ITIN filers from the CalEITC and Young Child Tax Credit is the exception to the norm. People who file taxes with ITINs are eligible for other tax benefits, including the renter’s tax credit, the dependent exemption credit, and the child and dependent care expenses credit. Allowing these tax filers to benefit from the CalEITC and Young Child Tax Credit would bring these credits into alignment with other tax benefits.

California's Undocumented Immigrants Make Significant Contributions to State and Local Revenues

Estimated Annual State and Local Taxes Paid by Undocumented Immigrants = \$3.2 Billion



Source: Institute on Taxation and Economic Policy



Reducing the harmful effects of poverty on children

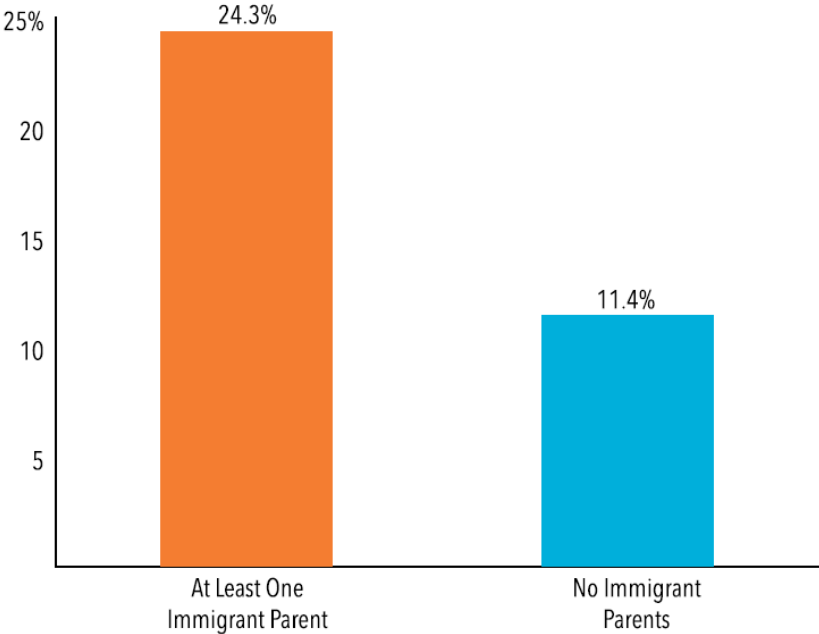
Among working families, children of immigrants are more than twice as likely to live in poverty as other children in working families. (See chart, page 7.) This reflects the fact that many immigrant workers are engaged in low-paid and often unstable work, and are far more likely to be victims of exploitation, such as wage theft.

Economic instability can have lasting, harmful effects on children. The longer children spend in poverty, the *less* likely they are to complete high school, attend college, and be consistently employed in early adulthood, and the *more* likely they are to live in poverty as adults. Tax credit exclusions mean that many children of immigrants have considerably lower after-tax incomes than other children, putting them at greater risk of suffering these long-term consequences.

Extending the CalEITC and Young Child Tax Credit to excluded immigrant workers and their children is a way to blunt the negative effects of growing up in poverty and bring children of immigrants closer to equal opportunity.

Among Working Families, Children of Immigrants Are Far More Likely to Live in Poverty Than Other Children

Poverty Rate Based on the Supplemental Poverty Measure, 2015-2017



Note: Working families are those with any earnings from work. Immigrant parents are those who were born outside of the US and US territories and were not born to US citizen parents.
Source: Budget Center analysis of US Census Bureau, Current Population Survey data

