



STATE OF CALIFORNIA
Franchise Tax Board

California Earned Income Tax Credit, Young Child Tax Credit, and Foster Youth Tax Credit Report

Economic and Statistical Research Bureau

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Purpose

This report is intended to fulfill the Franchise Tax Board's (FTB's) obligation under Revenue & Taxation Code (RTC) Sections [17052\(j\)](#), [17052.1\(g\)](#), and [17052.2\(j\)](#) to annually provide a written report on the California Earned Income Tax Credit (CalEITC), the Young Child Tax Credit (YCTC), and the Foster Youth Tax Credit (FYTC) to the specified legislative committees.

As specified by statute, this report includes the number of tax returns claiming the CalEITC, YCTC, and FYTC, the number of individuals represented on tax returns claiming the CalEITC, the number of qualifying children represented on tax returns claiming the YCTC, the average CalEITC, YCTC, and FYTC amounts, the distribution of CalEITC by dependents and income ranges, an estimate of the number of families who are lifted out of deep poverty by the CalEITC, and the number of families who are lifted out of deep poverty by the combination of the CalEITC and the federal Earned Income Tax Credit (EITC).

Prepared by the Staff of the
Franchise Tax Board
STATE OF CALIFORNIA

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Background

- Chapter 21 of the Statutes of 2015 (Senate Bill - SB 80) created the CalEITC, which allows a refundable credit for qualified taxpayers. This credit became operative for taxable years beginning on or after January 1, 2015.
- Chapter 96 of the Statutes of 2017 (SB 106) modified the CalEITC by extending the income limits and expanding the program to taxpayers with self-employment income. These changes became operative for taxable years beginning on or after January 1, 2017.
- Chapter 52 of the Statutes of 2018 (SB 855) modified the CalEITC by further extending the income limit and expanding the program to include childless income taxpayers under 25 and over 65. These changes became operative for taxable years beginning on or after January 1, 2018.
- Chapter 39 of the Statutes of 2019 (AB 91) modified the CalEITC by extending the income limit to \$30,000 for all taxpayers and creating the Young Child Tax Credit. The YCTC allows an additional \$1,000 credit for taxpayers who qualify for CalEITC and have a child age 5 or younger. These changes became operative for taxable years beginning on or after January 1, 2019.
- Chapters 19 and 87 of the Statutes of 2020 (AB93 and AB1876) expanded both the CalEITC and the YCTC to taxpayers with Individual Taxpayer Identification Numbers (ITINs). These changes became operative for taxable years beginning on or after January 1, 2020.
- Chapter 8 of the Statutes of 2021 (SB 88) expanded both the CalEITC and the YCTC to allow otherwise qualified undocumented persons to claim these credits.
- Chapter 72 of the Statutes of 2022 (SB 201) created the Foster Youth Tax Credit. The FYTC allows an additional \$1,083 credit, indexed annually beginning in 2023, for foster youth receiving CalEITC and who meet additional requirements. It also added an annual inflation indexing requirement for YCTC and allowed the qualified taxpayer to have earned income of zero dollars or less. These changes became operative for taxable years beginning on or after January 1, 2022.
- Chapter 55 of the Statutes of 2022 (AB 194) under Government Code (GOV) section 12419.3.3 directed the Controller to not offset delinquent accounts against the personal income tax refunds of individuals who receive the CalEITC or the YCTC, for taxable years beginning on or after January 1, 2024.
- Chapter 34 of the Statutes of 2024 (SB 167) aligned the maximum qualified earned income thresholds of the YCTC and FYTC with the CalEITC for taxable years beginning on or after January 1, 2024.

The CalEITC credit amount is determined by the number of qualified children and the amount of qualified earned income and is structured with credit phase-in and phase-out income ranges. The CalEITC is only operative for taxable years in which resources are authorized in the annual Budget Act for the FTB to oversee and audit returns associated with the credit.

Generally, a qualified CalEITC taxpayer/return:

- Has qualified earned income of \$1 up to \$30,000 and federal adjusted gross income of up to \$30,000,
- Has investment income, such as interest, dividends, royalties, and capital gains, that does not exceed the specified limit for the entire tax year,
- Has a valid social security number or ITIN for the individual, their spouse, and any qualifying child,
- Does not use the “married/RDP filing separately” filing status, unless they have a qualifying child live with them for more than half a year, been legally separated, or have lived apart for the last six months,
- Lives in California for more than half the tax year.

For the 2022 taxable year, the maximum CalEITC ranged from \$275, for an eligible individual without a qualifying child, to \$3,417, for an eligible individual with three qualifying children.

Generally, a qualified YCTC taxpayer/return:

- Also receives the CalEITC
- Has at least one child age 5 or younger at the end of the tax year
- Has earned income of \$30,000 or less. The credit is phased out as the taxpayer’s earned income exceeds \$25,000
- May have earned income of \$0 or less, with any net losses not to exceed \$32,490 in the taxable year, beginning on or after January 1, 2022

For the 2022 taxable year, the maximum YCTC was \$1,083 for taxpayers with a qualifying child.

Generally, a qualified FYTC taxpayer/return:

- Also receives the CalEITC
- Was between the ages of 18 to 25 at the end of the tax year
- Was in foster care at age 13 or older and placed through the California foster care system
- Has earned income of \$30,000 or less. The credit is phased out as the taxpayer’s earned income exceeds \$25,000
- Satisfies a foster care verification requirement

For the 2022 taxable year, the maximum FYTC was \$1,083 for qualifying taxpayers.

Brief History of the EITC

The federal EITC program began in 1975 as an anti-poverty program for both adults and children in lower income working families. The primary purposes of the program are to lift people out of poverty and to encourage labor market participation by providing additional benefits from employment. Federal EITC benefits for low-income families with children can make up a substantial portion of their total income.

For the 2022 taxable year, the federal EITC qualifying income maximums for those with three qualifying children were:

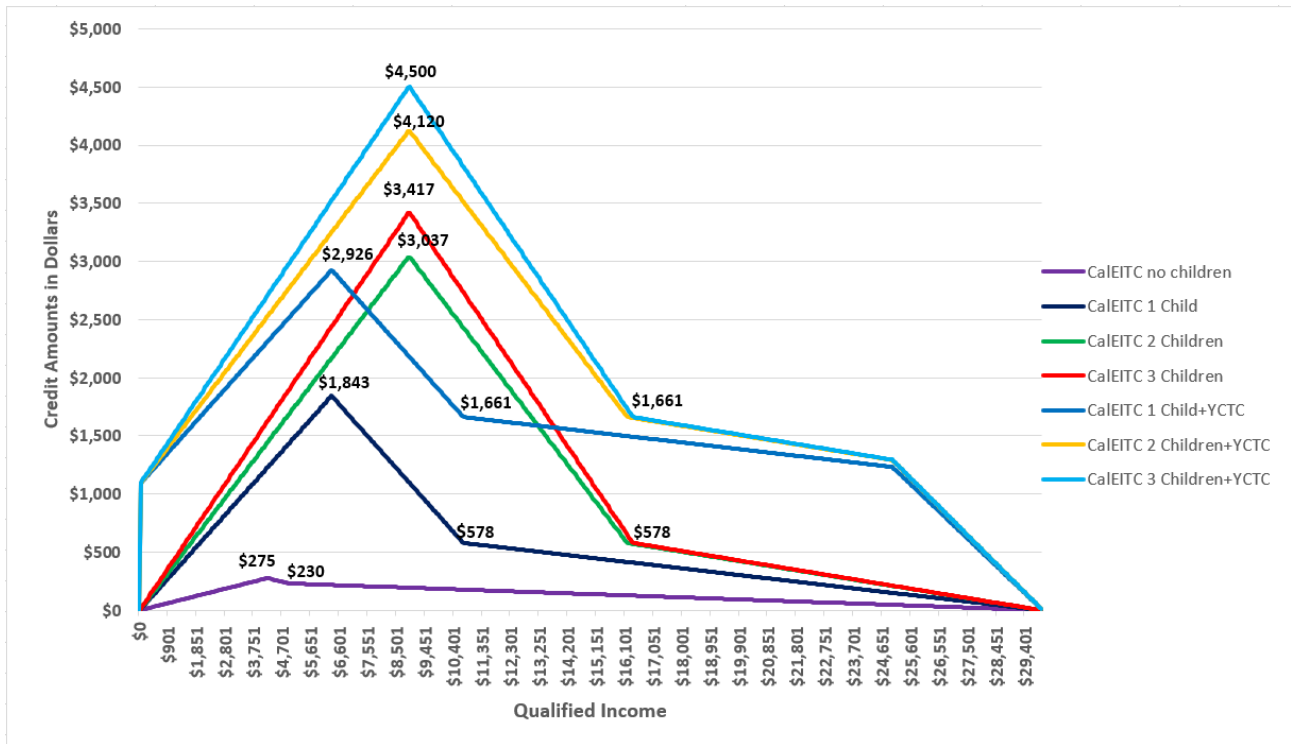
- Single, Head of Household, or Widowed \$53,057
- Married Filing Joint returns \$59,187

The maximum federal EITC amounts by number of qualifying children were:

No qualifying children	\$560
1 qualifying child	\$3,733
2 qualifying children	\$6,164
3 or more qualifying children	\$6,935

Since 1975, many states have supplemented the federal EITC program by adopting their own versions of the federal program. Beginning with the 2015 taxable year, California adopted its own earned income tax credit. The CalEITC differs from the federal program by imposing lower income limits and not including filing status as a determinant of the credit amount. In addition, beginning in taxable year 2020, the credit was expanded to taxpayers with ITINs. Figure 1 provides a representation of the CalEITC credit phase-in, credit maximum, and the credit phase-out for specified qualified income ranges and number of qualified children.

Figure 1: CalEITC Credits by Qualified Children and Income in Taxable Year 2022.



The credit has three value ranges that vary by qualified income:

1. The phase-in range where the credit is equal to the credit phase-in rate multiplied by qualified income and the CalEITC adjustment factor;
2. The phase-out range where for each dollar of qualified income over the maximum, the credit is reduced by the phase-out rate until the credit reaches \$578 for taxpayers with qualifying children or \$230 for taxpayers without qualifying children; and
3. After the credit reaches \$578/\$230, an alternate phase-out range where the credit is phased out more slowly until the credit reaches zero.

For 2022, the CalEITC credits are phased-out completely at qualified income levels of \$30,001 for all taxpayers. Figure 1 also shows the credit structure of the combined CalEITC and YCTC.

FTB Statutory Reporting Requirements

The FTB is required to report annually on the CalEITC, YCTC, and FYTC to the specified legislative committees.

The CalEITC reporting requirements include the following:

1. The number of tax returns claiming the CalEITC.
2. The number of individuals represented on tax returns claiming the CalEITC.
3. The average CalEITC amount.
4. The distribution of CalEITC by dependents and income ranges with the income ranges encompassing the phase-in and phase-out ranges of the credit.
5. An estimate of the number of families who are lifted out of deep poverty by the CalEITC and the number of families who are lifted out of deep poverty by the combination of the CalEITC and federal EITC. For the purposes of this report, a family is considered in “deep poverty” if the income of the family is less than 50 percent of the federal poverty threshold.

The YCTC reporting requirements include the following:

1. The number of tax returns claiming the credit.
2. The number of qualifying children represented on tax returns claiming the credit.
3. The average credit amount on tax returns claiming the credit.

The FYTC reporting requirements include the following:

1. The number of tax returns claiming the credit.
2. The average credit amount on tax returns claiming the credit.

Data

The information presented in Sections 1 through 4 are for taxable year 2022 returns. Other CalEITC publications from the FTB present data on a process year basis, so totals in this report may not match other publications. Section 5 presents data on a process year basis. Process year data includes original tax returns for the current tax year and late returns for previous tax years. The reason for using process year in Section 5 instead of tax year is to include everyone who received CalEITC benefits in 2022 as part of the poverty analysis.

1) Returns Claiming the CalEITC, YCTC and FYTC

Table 1: The Number and Amounts of Credits Allowed in Taxable Year 2022.

Credit Type	Number of Returns	Credits Allowed (in millions)
CalEITC	3,293,476	\$890
YCTC	401,820	\$404
FYTC	4,892	\$5

Source: 2022 Personal Income Tax Population File

Table 2: The Number and Amounts of Credits Allowed in Process Year 2023.

Credit Type	Number of Returns	Credits Allowed (in millions)
CalEITC	3,448,561	\$922
YCTC	412,467	\$414
FYTC	4,892	\$5

Source: 2022 Personal Income Tax Population File

Process year 2023 includes tax year 2022 CalEITC and YCTC returns processed during 2023 and late filed prior year returns. Because it is the first year the credit is available, the FYTC data only includes tax year 2022 returns.

2) Average CalEITC, YCTC, and FYTC Amounts

Table 3: Average Credit Amounts Allowed in Taxable Years 2021 and 2022.

Credit Type	2021	2022
CalEITC	\$196	\$270
YCTC	\$927	\$1,005
FYTC	N/A	\$1,039

Source: 2022 Personal Income Tax Population File

3) The Number of Individuals Represented on Tax Returns Claiming the CalEITC and YCTC

To compute the number of individuals represented on tax returns claiming CalEITC, a filing status count ("1" for single, widow, or head of household or "2" for joint returns) is added to the number of exemption dependents claimed on the return (whether or not those dependents qualified for the CalEITC). The purpose of using the count of exemption dependents claimed rather than qualified CalEITC children is to get a more complete assessment of the total number of individuals in each household where the CalEITC relief was realized.

Table 4: CalEITC Number Returns Claiming the Credit and Number of Family Members Represented on Return by Type for Taxable Year 2022.

CalEITC	Count
Number of Returns	3,293,476
Number of Family Members	5,462,183
Number of Dependents (Total)	1,762,705
Number of CalEITC Qualifying Children	1,540,704
Number of CalEITC Qualifying Children on returns receiving YCTC	703,599
Number of YCTC Qualifying Children	487,569

Source: 2022 Personal Income Tax Population File

4) Distribution of CalEITC by Dependents and Income Ranges

The CalEITC income phase-in and phase-out ranges differ based on the number of qualified children included in the credit claim. Filing status has no bearing on the credit calculation. Only the first three CalEITC-qualified children affect the amount of credit that can be claimed.

Table 5 shows the distribution of allowed CalEITC returns and credits by qualified children. The number of returns claiming CalEITC decreases as the number of qualified children increases. The average credit is larger for taxpayers with more qualified children. This is expected since the amount of credit allowed at each income level is greater with more qualified children. Of the 2.3 million returns with no CalEITC qualified children, 88,000 claimed exemptions for dependents that did not qualify for CalEITC purposes.

Table 5: The Distribution of CalEITC Credit Amounts by Qualified Child in Taxable Year 2022.

CalEITC Qualified Children	Returns	Total Credits Allowed (in millions)	Average Credits Allowed
No Qualified Children	2,335,911	\$269	\$115
1 Qualified Children	521,857	\$245	\$470
2 Qualified Children	288,277	\$241	\$835
3+ Qualified Children	147,431	\$135	\$913
Total	3,293,476	\$890	\$270

Source: 2022 Personal Income Tax Population File
Totals may not add due to rounding

Tables 6-9 show the number of CalEITC returns by income range for each number of qualifying children.

Table 6: CalEITC Allowed by Phase-in/Phase-out Ranges with Zero Qualified Children in Taxable Year 2022.

Qualified Income (credit table levels)	Returns	Total Credits Allowed (in millions)	Average Credits Allowed
Phase-In (up to \$4,248)	280,588	\$36	\$129
Phase-Out (up to \$30,000)	2,055,323	\$233	\$113
Total	2,335,911	\$269	\$115

Source: 2022 Personal Income Tax Population File
Totals may not add due to rounding

Table 7: CalEITC Allowed by Phase-in/Phase-out Ranges with One Qualified Child in Taxable Year 2022.

Qualified Income (credit table levels)	Returns	Total Credits Allowed (in millions)	Average Credits Allowed
Phase-In (up to \$6,379)	58,156	\$56	\$954
Phase-Out (up to \$30,000)	463,701	\$190	\$410
Total	521,857	\$245	\$470

Source: 2022 Personal Income Tax Population File
Totals may not add due to rounding

Table 8: CalEITC Allowed by Phase-in/Phase-out Ranges with Two Qualified Children in Taxable Year 2022.

Qualified Income (credit table levels)	Returns	Total Credits Allowed (in millions)	Average Credits Allowed
Phase-In (up to \$8,954)	42,685	\$71	\$1,658
Phase-Out (up to \$30,000)	245,592	\$170	\$691
Total	288,277	\$241	\$835

Source: 2022 Personal Income Tax Population File
Totals may not add due to rounding

Table 9: CalEITC Allowed by Phase-in/Phase-out Ranges with Three or More Qualified Child in Taxable Year 2022.

Qualified Income (credit table levels)	Returns	Total Credits Allowed (in millions)	Average Credits Allowed
Phase-In (up to \$8,954)	21,508	\$40	\$1,880
Phase-Out (up to \$30,000)	125,923	\$94	\$748
Total	147,431	\$135	\$913

Source: 2022 Personal Income Tax Population File
Totals may not add due to rounding

5) Estimate of the Number of Families Lifted Out of Deep Poverty

Federal Poverty Threshold

Measuring a family’s poverty level requires use of poverty income thresholds that vary by family size and composition. These poverty thresholds are then compared to family income data to determine specific poverty levels. A family is considered to be in poverty if its resources fall short of 100 percent of the poverty threshold. Deep poverty status is realized when family income is under half, or 50 percent, of the poverty threshold.

The official federal poverty measure is produced by the US Census Bureau (Census). It was developed in the early 1960s and measures a family’s pre-tax cash resources relative to a threshold intended to reflect the minimum income required to meet basic needs. This income measure does not include capital gains or noncash benefits such as public housing, Medicaid, or food stamps; but does include public assistance payments. The official threshold is essentially the cost of a subsistence diet in the 1960s multiplied by three (because food constituted about a third of a family’s budget at that time). The official measure of poverty assumes that all individuals in a household who are related by birth, marriage, or adoption share income. The thresholds do not vary geographically but are updated annually for inflation. You can access the federal poverty thresholds by family size and number of related children under 18 years of age via the [U.S. Census Bureau website link](#) provided.

Poverty Measure Methodology and Data Limitations

The process of estimating deep poverty utilizing available tax return data requires the following steps:

1. Redefining the return data into family units consistent with the federal poverty threshold table.

2. Calculating pre-tax family income as closely as possible to that specified by the federal poverty threshold guidelines.
3. Comparing family income within a family to the appropriate 2022 federal poverty threshold.

Families with income below 50 percent of the threshold are considered to be living in deep poverty. The below methodology is used to derive four income levels for comparison to the poverty level:

1. Income without any earned income tax credit benefits, or base income.
2. Income with the CalEITC.
3. Income with the CalEITC and YCTC, and
4. Income with the CalEITC, YCTC, and the federal EITC.

Unlike Sections 1 through 4 of the report, which are based on tax year data, the poverty analysis relies on process year 2023 original return data where the CalEITC was allowed. The reason for using process year instead of tax year is to include everyone who received CalEITC benefits in 2022 as part of the poverty analysis. Though much data is available on returns, there are limitations to the data as it applies to the estimates of deep poverty. However, as discussed below, the FTB does not believe these data limitations have a substantial effect on the resulting deep poverty estimates.

The FTB's primary concern with this deep poverty analysis is that the U.S. Census federal poverty level income computations are derived using Current Population Survey data and some of the items used to compute poverty status at the federal level, specifically public assistance payments, are not reported on tax returns. California has various welfare programs that provide direct cash grants or public assistance payments to working families but because these types of payments are not taxable and not reported on tax returns, they are not available to the FTB on a taxpayer-by-taxpayer basis. As a result, the FTB is unable obtain public assistance payment data, a substantial income item used in determining poverty status to complete this analysis.

There is no perfect way for the FTB to identify which adults and/or dependents represented on tax returns received or would qualify for public assistance income. Incorrect assumptions about family income could affect poverty and deep poverty estimates reported below. Because of this concern, the estimate for the deep poverty impacts of state and federal EITC are presented in two ways. First, the number of Californians lifted out of deep poverty is presented using only available tax return income data, assuming no public assistance income. Second, to provide some insight into the impact public assistance payments might have, the same analysis is presented using public assistance data by filing status and number of dependents based on a California Department of Finance analysis of the Census Bureau's 2022 American Community Survey, Public Use Microdata Set.

Table 10: Average Annual Public Assistance for Californians Living in Deep Poverty by Filing Status and Number of Dependents in Calendar Year 2022.

Filing Status	0	1	2	3+
Single, Head of Household, Widow	\$114	\$777	\$806	\$1,836
Married Filing Jointly	\$71	\$274	\$346	\$919

**Includes individuals receiving no public assistance*

Source: Census Bureau 2022 American Community Survey

Another limitation in the data available to the FTB is in the definition of a family unit. The federal poverty thresholds reported depend on both total family size, and the number of family members under age 18. The FTB data, however, only includes age information for dependents if the dependent qualifies as a child for EITC purposes. The analysis presented here assumes that a family includes the taxpayer or taxpayers on a return as well as all dependents claimed, and that dependents without age information are under age 18. For those taxpayers with dependents incorrectly assumed to be under age 18, the analysis slightly underestimates their poverty level threshold. Comparing across columns the differences in poverty thresholds for dependents of different ages are small, therefore, the assumption that all dependents without age information are under 18 is unlikely to substantially impact the final estimated poverty results.

Estimate Results: Lifting Families Out of Deep Poverty

Per statute, the FTB is required to provide estimates of the number of families who are lifted out of deep poverty by (1) the CalEITC and (2) by the combination of the CalEITC and the federal EITC. Figure 2 provides a visual example of the 2022 deep poverty income scale.

Figure 2: Family's Base Income and Percent of Federal Poverty Level with and without CA and Federal EITC (Example: Single Filer with Two Qualified Children Under Age 18).

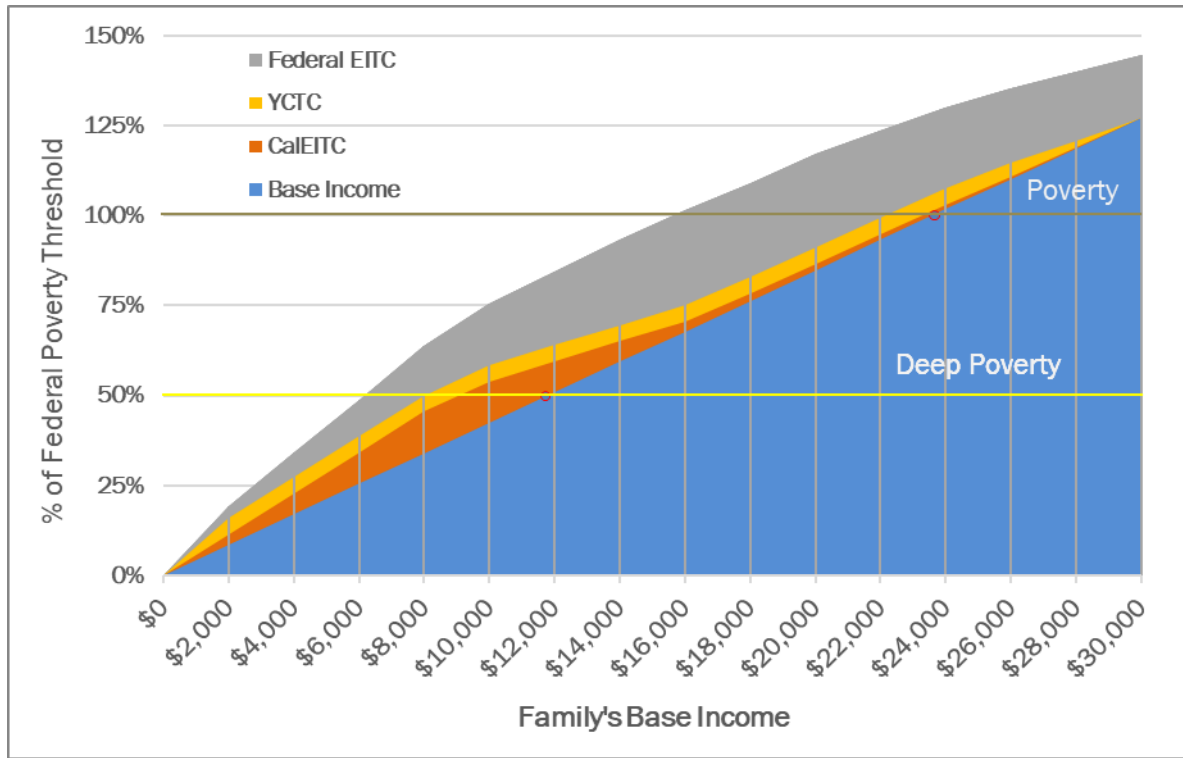


Figure 2 shows the range of effects that the CalEITC, YCTC and the federal EITC have across base income levels for a family represented by a single qualified CalEITC taxpayer with two qualified children under 18 years of age. For purposes of this example, assume that a family's base income does not include income from public assistance payments. Based on the federal thresholds, this family's poverty income threshold is \$23,578 in 2022 and \$11,789 for deep poverty. Tables 11 through 13 below illustrate the processes applied to the CalEITC return data in order to estimate the state and federal earned income tax credit effect on deep poverty status.

Table 11 summarizes the impact of federal and state anti-poverty credits on lifting families out of deep poverty. For example, in Table 11, at a base income of \$8,801, the CalEITC is \$3,001 for process year 2022. Adding the CalEITC amount to base income brings the family's total income to \$11,802 and above deep poverty. By including the federal EITC and combining with the CalEITC, the base income needed is reduced to \$6,775. The impact of adding YCTC is also shown.

Table 11: Minimum Income to be Lifted Out of Deep Poverty by the CalEITC, YCTC, and Fed EITC.

Family's Base Income	CalEITC	YCTC	Fed EITC	Adjusted Income
\$8,801	\$3,001	-	-	\$11,802
\$7,994	\$2,712	\$1,083	-	\$11,790
\$6,775	\$2,304	-	\$2,710	\$11,789
\$6,151	\$2,100	\$1,083	\$2,470	\$11,804

Table 12 includes a summary of the estimated deep poverty results, without including public assistance income assumptions in base income. Of the 3,448,561 returns which were allowed the CalEITC, 767,000 families and 1,411,000 individuals are categorized as being in deep poverty when only their adjusted federal AGI is measured against the federal poverty thresholds. When adding the CalEITC amounts allowed for each return, 66,000 families and 166,000 individuals are lifted above deep poverty.

Table 12: Number of Families and Individuals Lifted Out of Deep Poverty - No Public Assistance (Numbers in Thousands).

Income Items Used in Deep Poverty Calculations	Families in Deep Poverty	Families Above Deep Poverty	With EITC: Families Lifted Out of Pre-EITC Deep Poverty	Individuals In Deep Poverty	With EITC: Individuals Lifted Out of Pre-EITC Deep Poverty
Base Income (no Public Assistance)	767	2,682	-	1,411	-
Base Income + CA EITC	701	2,748	66	1,245	166
Base Income + CA EITC + YCTC	683	2,766	84	1,186	225
Base Income + CA EITC + YCTC + Fed EITC	584	2,865	183	907	504

Source: 2022 Personal Income Tax Population File

In the above calculation, both the CalEITC and the YCTC amounts are added to base income. The data shows that 84,000 of the 767,000 families in deep poverty are lifted above deep poverty income levels. The combination of the CalEITC and

YCTC lifts over 225,000 individuals out of deep poverty compared to a family's base income without either program. In the final analysis without public assistance payments, the CalEITC, YCTC and Federal EITC are added to base income. Out of the 767,000 families in deep poverty, 183,000 families are lifted above the deep poverty line. The combination of the three credits lifts 504,000 individuals out of deep poverty.

To provide insight on the effect that public assistance payments might have on deep poverty results, a second round of analysis was completed in which families are assumed to have received public assistance income in 2022 (see Table 10). The FTB received data from the Department of Finance on the amount of public assistance provided to families in deep poverty, broken out by filing status and number of dependents. For this analysis, the FTB assumed that each taxpayer received the average amount of assistance for their filing status and family size. A summary of the estimated deep poverty results under this scenario is provided in Table 13.

Table 13: Number of Families and Individuals Lifted Out of Deep Poverty – With Public Assistance (Numbers in Thousands).

Income Items Used in Deep Poverty Calculations	Families in Deep Poverty	Families Above Deep Poverty	With EITC: Families Lifted Out of Pre-EITC Deep Poverty	Individuals In Deep Poverty	With EITC: Individuals Lifted Out of Pre-EITC Deep Poverty
Base Income (no Public Assistance)	767	2,682	-	1,411	-
Base Income (with Public Assistance)	723	2,726	44	1,290	121
Base Income (w/PA) + CA EITC	655	2,794	68	1,113	177
Base Income (w/PA) + CA EITC + YCTC	638	2,811	85	1,061	229
Base Income (w/PA) + CA EITC + YCTC + Fed EITC	560	2,889	163	847	443

Source: 2022 Personal Income Tax Population File

Assuming average levels of public assistance, the number of individuals in deep poverty before receiving federal or California EITC drops from 1,411,000 to

1,290,000. The number of families in deep poverty drops from 767,000 to 723,000. In this simulation, the CalEITC lifts 68,000 families and 177,000 individuals out of deep poverty. The combination of the CalEITC and YCTC lifts 85,000 families and 229,000 individuals out of deep poverty and the combination of the three credits lifts 163,000 families and 443,000 individuals out of deep poverty.

CalEITC and Other Anti-Poverty Outreach Efforts

The federal EITC and CalEITC are the largest anti-poverty cash assistance programs in the United States. The CalEITC benefits millions of taxpayers and results in hundreds or thousands of dollars in refunds being sent to California families each year. During process year 2023, tax refunds of \$1.3 billion in the CalEITC, YCTC, and FYTC were issued to low-income taxpayers. Unfortunately, not all lower-income households file a tax return to claim these valuable credits. To better understand the reasons eligible taxpayers are not claiming anti-poverty credits, the FTB published a report identifying the most common barriers to uptake. One uptake opportunity identified in the study was education and outreach and coordination of efforts among State agencies that serve low-income populations. A bill allowing data sharing between the FTB, the California Department of Social Services (CDSS), and the State Department of Health Care Services (DHCS) was enacted for purpose of identifying and informing state residents of the availability of Volunteer Income Tax Assistance (VITA), CalFile, federal EITC, the CalEITC, and other federal and state antipoverty tax credits that are designed to alleviate poverty and tax burdens of low-income households.

Legislative Background

- Chapter 114 of the Statutes of 2020 (SB 1409) directed the FTB to report to the Legislature, by January 1, 2022, an analysis and plan, to increase the number of claims of the federal EITC and the CalEITC allowed and explore alternative filing systems.
- Chapter 953 of the Statutes of 2022 (AB 1863) directed the FTB to notify potential eligible CalEITC recipients of the availability of the CalEITC and of the paperless (electronic) filing options offered through the FTB beginning January 1, 2023. It also directed the FTB to report to the Legislature, as specified, on or before January 1, 2026.
- Chapter 737 of the Statutes of 2022 (AB 158) repealed and replaced RTC section 19551.3, authorizing the FTB to exchange data with the CDSS, and the DHCS for purposes of identifying taxpayers who may qualify for specified antipoverty credits, and inform them of free filing options available through VITA, and CalFile. This bill also required the CDSS and the DHCS, beginning January 1 of each calendar year, to provide their outreach findings, as specified, to the FTB.

- Chapter 55 of the Statutes of 2023 (SB 131) extended the sunset date under RTC section 19551.3 for the FTB, CDSS, and DHCS to share data through January 1, 2026, and modified the metrics to be shared. Additionally, this bill amended GOV section 12419.3.3 by adding FYTC to the list of credits where the Controller cannot offset delinquent accounts against. This bill also amended the EITC Information Act requiring California employers, state departments, and certain agencies to provide formal notification of possible eligibility for the CalEITC.

A. Outreach Background

Both the FTB and the IRS have engaged in numerous outreach efforts to encourage potentially eligible federal EITC and CalEITC taxpayers to file income tax returns. These efforts, in general, have had limited success.

When the CalEITC was first adopted in 2015, the FTB reached out to 90,000 individuals who had not filed state tax returns in prior years but appeared to qualify for the CalEITC based on their 2014 federal tax information. Fewer than 1,200 filed a state tax return and, of these, only 15 taxpayers, qualified for the CalEITC.

In 2016, at the request of the Legislature, the FTB conducted a CalEITC study. The FTB identified 53,750 paper filed tax returns that did not claim the CalEITC but appeared eligible. The FTB reached out to these taxpayers with simplified amended returns, provided an estimated credit amount, and included forms in both English and Spanish. 11,300 taxpayers responded, of those, approximately 7,500 taxpayers qualified for the credit, resulting in approximately, \$4.5 million in refunds being issued.

In 2018, the Treasury Inspector General for Tax Administration issued a report on ways the IRS could increase federal EITC participation. Data suggested 1.7 million potentially qualified federal EITC eligible taxpayers filed tax returns but did not claim the credit. Reasons noted for this were factors such as lack of awareness, high tax preparation costs, fear of being audited, stigma/pride, or complexity of the calculation.

In 2018 and 2019, the California Policy Lab (CPL) worked with the FTB and the CDSS on several outreach campaigns using low-cost text messages and letters to increase awareness and claims of the federal EITC and the CalEITC. After sending 160,000 letters and nearly 1.5 million texts, findings from this report indicated that none of the outreach efforts led to an increase in tax filings.

In 2020, the FTB again partnered with CPL and conducted a survey of individuals contacted during the 2018 and 2019 outreach campaign. Survey letters were sent to roughly 28,000 individuals who did not appear on a tax return. Half of the individuals received a letter inviting them to complete an online survey, and the

other half received a letter with a paper survey and a prepaid envelope to submit their responses. The survey aimed to understand their perceptions of the CalEITC, the tax filing process, and trusted messengers. Unfortunately, the FTB only received 60 survey responses. Due to the limited response, no analysis was conducted.

B. Outreach Funding and Data Sharing Agreements

In 2022, legislation was passed (Chapter 737, Statutes of 2022) to allow the FTB and the CDSS to share data for purposes of informing state residents of the availability of VITA, CalFile, the federal EITC, the CalEITC, and other federal and state antipoverty tax credits that are designed to alleviate poverty and tax burdens of low-income households. To achieve this, CDSS sent 2022 recipient data to the FTB, the FTB then identified recipients who had not filed a return in the tax years 2020 and 2021. The FTB also narrowed the recipients to just those wage earners appearing to fall within the range of eligibility for CalEITC and were over the age of 18. A Non-Filer flag was then returned to CDSS. In addition, the FTB was authorized and funded to conduct an outreach letter campaign, in 2022, for taxpayers who may be qualified CalEITC recipients.

C. 2023 FTB Outreach Letter Campaign

The FTB sent letters to prior year filers (Filers) who appeared to be qualified CalEITC recipients but did not claim the credit. Using the taxpayer's most recent return, the letter included an estimated CalEITC range and directed the taxpayer to fill out the Form 3514 and return it to the FTB for processing. The FTB also reached out to taxpayers who had not filed a return (Non-Filers) for the last two years (taxable years 2021 or 2022) and based on available data appeared to be a qualified CalEITC recipients. Each letter included information on the maximum amount of credit available by family size and shared information on free filing assistance available through VITA programs and the FTB's online CalFile program.

Non-Filer Outreach

Using information from the taxable year 2020 return and wage information from the Employment Development Department the FTB sent about 198,000 letters to Non-Filers letting them know, if qualified, to submit a tax return with the FTB. These letters were sent out between May 19, 2023, and May 23, 2023, and approximately 9,100 taxpayers responded by filing a tax return, receiving \$1.6 million in CalEITC refunds.

In addition to the taxable year 2022 returns filed in response to the letter, these taxpayers also filed approximately 3,100 returns for tax years within the statute of limitations and were allowed an additional \$500,000 in CalEITC refunds.

Filer Non-Claimant

Each year taxpayers file tax returns with data that indicates they may be eligible for the CalEITC, but they do not claim it. For the summer 2023 outreach campaign, the FTB identified these taxpayers and sent almost 150,000 letters letting these individuals and families know, if qualified, to fill out the CalEITC Form 3514 and return it to the FTB. These letters were sent between August 14, 2023, and September 19, 2023, and approximately 1,500 taxpayers received about \$360,000 in CalEITC refunds.

Table 14: FTB Letter Outreach Summary

	Non-Filer	Filer	Total
Total Letter Volume	198,261	147,150	345,411
Total Number of Credits Claimed	9,903	2,306	12,209
Total Number of Credits Allowed	9,137	1,476	10,613
Total Amount of Credit Allowed	\$1,663,033	\$360,477	\$2,023,510
Response Rate	4.99%	1.57%	3.53%

Data for tax returns filed between June 1, 2023, and February 29, 2024, as of March 20, 2024.

D. 2022 and 2023 CDSS Outreach Campaign

In 2022, CDSS, partnered with the FTB, CPL, and Code for America, to implement a fall outreach campaign which included text messages, email messages, and voice recordings. Additionally, CDSS launched a new helpline to provide callers with live support and resources. Similarly, in 2023, the CDSS led a two-phased outreach campaign, including text messages in the spring, and text, voice, and email messages in the fall. CDSS also provided higher touch supports from their Outreach Helpline and proactively reached out to individuals and families to provide additional information and support.

E. CDSS and DHCS Statutory Reporting Requirements

In accordance with RTC section 19551.3, the CDSS and the DHCS are required to report to the FTB beginning January 1 of each calendar year, the findings of outreach program, including, but not limited to, the following information:

1. A description of each outreach program and the parameters of that program.
2. The number of outreach contacts.
3. The number of individuals responding to outreach contacts concerning information on anti-poverty tax credits and methods for filing a return.

F. CDSS Outreach

In 2022, the CDSS sent out text, email, and voice messages between October 31, 2022, and November 15, 2022. For purposes of this outreach effort, the CDSS exchanged data with the FTB on benefit recipients. The FTB compared the

recipient list to tax return filings for taxable years 2020 and 2021, to identify benefit recipients who did not appear to have filed a tax return in those years. The FTB returned the Non-Filer data to CDSS and they sent out approximately 359,000 notifications to these recipients.

Table 15: CDSS 2022 Number of Recipients Contacted and Responded

Type Of Message	Number of Messages	Responded To Message*
Text Messages	69,810	130
Voice Messages or Emails	289,000	15,042
Total Messages	358,810	15,172

*Response data is based on email or text responses from the benefit recipient.

The CDSS analysis of data related to the unique URL shared via text and email indicate that of the 359,000 benefit recipients that were contacted approximately 515 filed an income tax return with the FTB and received refunds of about \$740,000. Because of the data tracking limitations of a unique URL, more benefit recipients may have filed a return in response to CDSS initiated outreach that was not otherwise reflected in the count captured by the unique URL.

In spring 2023, CDSS initiated a minimal touch campaign that included an initial text message and a reminder text message on the benefit of filing a return, where to file, and information on free tax preparation services. Approximately 157,000 individuals receiving CalWORKs and/or CalFresh benefits received an initial text message on March 27, 2023, and a reminder text message on April 10, 2023.

In fall 2023, the CDSS collaborated with the FTB to identify and contact 1.3 million Non-Filers who received CalWORKs and/or CalFresh benefits. Messages were sent via email and voice recording, with information on available tax credits, such as the federal EITC, federal Child Tax Credit, the YCTC, and the CalEITC. These messages included information on how to file and direction on available tax filing supports. Additionally, the CDSS provided a high touch support via a helpline. This high-touch solution helped individuals and families understand their eligibility for tax credits, options for filing, and connected them to available resources. The tax outreach campaign ran for eight weeks, from the week of September 22, 2023, to the week of November 9, 2023.

Table 16: CDSS 2023 Number of Recipients Contacted and Response Rate

Timing	Number Contacted	Response*
Spring 2023	157,000	9,133
Fall 2023	1,260,000	32,062

*Response data taken from inbound call report from Outreach Helpline and email responses taken from the outreach email inbox. The CDSS tax outreach program did not include capacity to receive responses by text.

To further understand the response rate for the CDSS outreach, FTB was able to compare CalWORKs program participant records and FTB return filing records to determine that the overlap in Non-Filer outreach contacts by both agencies was low at only 1,123 taxpayers. Due to federal privacy rules CDSS was only able to share individual specific data from CalWORKs participants that received outreach from CDSS. Table 17 provides the response rate for both outreach campaigns using FTB filing data for tax returns filed between June 1, 2023, and February 29, 2024. The FTB identified the number of returns filed by individuals contacted during the 2023 outreach campaign.

Table 17: FTB/CDSS 2023 Crossover in Contacted Taxpayers and Response Rate

	Number Contacted	Response Rate
Number of Non-Filers contacted by FTB – Summer 2023	198,261	
Number of Non-Filer CalWORKs recipients contacted by CDSS - Fall 2023	324,680	
Number of Non-Filers Contacted by FTB only	197,132	
Number of returns filed by taxpayers contacted by FTB*	19,156	
Number of returns allowed CalEITC*	10,098	5.12%
Amount of CalEITC Allowed	\$1,855,062	
Number of Non-Filers Contacted by CDSS only	323,551	
Number of returns filed by taxpayers contacted by CDSS only	2,113	
Number of returns allowed CalEITC	1,140	0.35%
Amount of CalEITC Allowed	\$752,427	
Number of Non-Filers Contacted by FTB & CDSS	1,129	
Number of returns filed by taxpayers contacted by FTB & CDSS*	78	
Number of returns allowed CalEITC*	47	4.16%
Amount of CalEITC Allowed	\$23,571	
Total Contacts	521,812	
Total taxpayers that filed a return	21,347	
Total taxpayers allowed CalEITC	11,285	2.16%
Amount of CalEITC Allowed	\$2,631,060	

Source: FTB's dsload. Data comparison as of August 7, 2024, for tax returns filed between June 1, 2023, and February 29, 2024.

* Differences in the amounts reported in tables 14 and 17 are due to data collection timing differences.