



STATE OF CALIFORNIA
Franchise Tax Board

California Earned Income Tax Credit and Young Child Tax Credit Report

Economic and Statistical Research Bureau

Purpose

This report fulfills the Franchise Tax Board's (FTB's) obligation under Revenue & Taxation Code sections 17052(j) and 17052.1(g) to annually provide a written report on the California Earned Income Tax Credit (CalEITC) and the Young Child Tax Credit (YCTC) to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate and Assembly Committees on Appropriations, the Senate Committee on Governance and Finance, the Assembly Committee on Revenue and Taxation, and the Senate and Assembly Committees on Human Services.

As specified by statute, this report includes the number of tax returns claiming the CalEITC, the number of individuals represented on tax returns claiming the CalEITC, the average CalEITC amount, 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 federal earned income tax credit (EITC). Additionally, this report includes the number of tax returns claiming the Young Child Tax Credit (YCTC), the average YCTC amount and the number of qualifying children represented on tax returns claiming the YCTC.

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

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Background

- Chapter 21 of the Statutes of 2015 (SB 80) created the CalEITC, which allows a refundable credit for qualified taxpayers. This credit was 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 were 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 were 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 (YCTC). The YCTC allows an additional \$1,000 credit for taxpayers who qualify for CalEITC and have a child age 5 or younger. These changes were operative for taxable years beginning on or after January 1, 2019.
- Chapters 19 and 87 of the Statutes of 2020 (AB 93 and AB 1876) expanded both the CalEITC and the YCTC to taxpayers with Individual Taxpayer Identification Numbers (ITINs). These changes were operative for taxable years beginning on or after January 1, 2020.
- Chapter 72 of the Statutes of 2022 (SB 201) created the Foster Youth Tax Credit (FYTC). The FYTC allows an additional \$1,083 credit 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 were operative for taxable years beginning on or after January 1, 2022.

The CalEITC credit amount is determined by the number of qualified children and the amount of qualified income and is structured with credit phase-in and phase-out income ranges. The CalEITC would only be 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.

For the 2021 taxable year, the maximum CalEITC ranged from \$255 for an eligible individual without a qualifying child to \$3,160 for an eligible individual with three qualifying children.

Generally, a qualified taxpayer/return:

- Has adjusted gross income (AGI) of up to \$30,000,
- Has investment income, such as interest, dividends, royalties, and capital gains that does not exceed \$4,053 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 2021 taxable year, the maximum YCTC was \$1,000 for taxpayers with a qualifying child.

Generally, a qualified taxpayer/return:

- Also receives the CalEITC;
- Has at least one child age 5 or younger at the end of the tax year; and
- Has earned income of \$30,000 or less. The credit is phased out when the taxpayer’s earned income exceeds \$25,000.

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 2021 taxable year, the federal EITC qualifying income maximums for those with three qualifying children were:

- Single, Head of Household, or Widowed \$51,464
- Married Filing Joint returns \$57,141

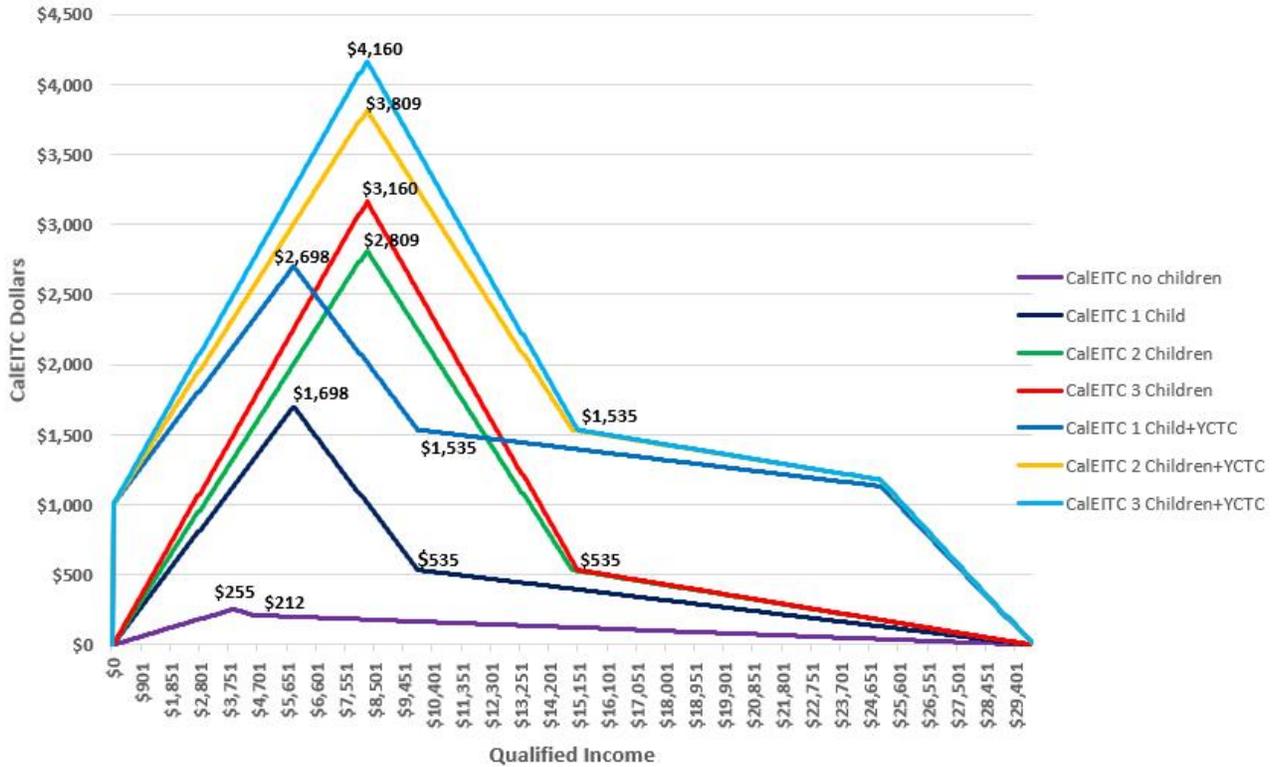
The maximum federal EITC amount by number of qualifying children were:

No qualifying children	\$1,502
1 qualifying child	\$3,618
2 qualifying children	\$5,980
3 or more qualifying children	\$6,728

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 by 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: Taxable Year 2021 CalEITC Credits by Qualified Children and Income



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 \$535 for taxpayers with qualifying children or \$212 for taxpayers without qualifying children; and
3. After the credit reaches \$535/\$212, an alternate phase-out range where the credit is phased out more slowly until the credit reaches zero.

For 2021, CalEITC credits are phased-out completely at qualified income levels of \$30,001 for all taxpayers. The chart also shows the credit structure of the combined CalEITC and YCTC.

FTB Statutory Reporting Requirements

The FTB is required to annually provide a written report to the specified legislative committees, which includes 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.

In addition to the reporting requirements for CalEITC, the FTB is also required to provide a written report on the YCTC, and 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.

Data

The information presented in sections 1 through 4 are for taxable year 2021 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 2021 as part of the poverty analysis.

1) Returns Claiming the CalEITC and YCTC

Table 1: Taxable year 2021, CalEITC number returns claiming the credit and amount of credit allowed (Dollars in millions)

Credit Type	Number of Returns	Credit Allowed
CalEITC	3,475,303	\$680
YCTC	365,982	\$339

Table 2: Process year 2022, CalEITC number returns claiming the credit and amount of credit allowed (Dollars in millions)

Credit Type	Number of Returns	Credit Allowed
CalEITC	3,614,534	\$706
YCTC	373,995	\$347

Process year 2022 includes tax year 2021 CalEITC returns processed during 2022 and returns that were late filed prior year returns. For the YCTC, the remaining returns processed during 2022 were for late filed 2019 and 2020 returns.

2) 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 (either “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 3: Tax year 2021, CalEITC number returns claiming the credit, number of family members represented on return by type.

CalEITC	Count
Number of Returns	3,475,303
Number of Family Members	5,471,836
Number of Dependents (Total)	1,633,899
Number of CalEITC Qualifying Children	1,409,892
Number of CalEITC Qualifying Children on returns receiving YCTC	632,380
Number of YCTC Qualifying Children	441,129

3) The Average CalEITC and YCTC amounts

Table 4: Average CalEITC and YCTC allowed in taxable year 2020 and 2021.

Credit Type	2020	2021	Percent Change
Average CalEITC	\$203	\$196	-3.4%
Average YCTC	\$931	\$927	-0.4%

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 2.6 million returns with no CalEITC qualified children, 96,000 claimed exemptions for dependents that did not qualify for CalEITC purposes.

Table 5: Tax Year 2021 Distribution of CalEITC Credit Amounts by Qualified Child

CalEITC Qualified Children	Returns	Total Allowed (Millions)	AVG
No Qualified Children	2,588,976	\$260	\$101
1 Qualified Children	493,722	\$174	\$353
2 Qualified Children	261,645	\$157	\$600
3+ Qualified Children	130,960	\$89	\$676
Total	3,475,303	\$680	\$196

Source: Franchise Tax Board Return Merge File
Totals may not add due to rounding

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

Table 6: Tax Year 2021 CalEITC Allowed by Phase-in/Phase-out Ranges with Zero Qualified Children

Qualified Income (credit table levels)	Returns	Total Allowed (Millions)	AVG
Phase-In (up to \$3,922)	353,332	\$37	\$103
Expansion Phase-Out (up to \$30,000)	2,235,644	\$224	\$100
Total	2,588,976	\$260	\$101

Source: Franchise Tax Board Return Merge File
Totals may not add due to rounding

Table 7: Tax Year 2021 CalEITC Allowed by Phase-in/Phase-out Ranges with One Qualified Child

Qualified Income (credit table levels)	Returns	Total Allowed (Millions)	AVG
Phase-In (up to \$5,890)	90,095	\$48	\$536
Expansion Phase-Out (up to \$30,000)	403,627	\$126	\$312
Total	493,722	\$174	\$353

Source: Franchise Tax Board Return Merge File
Totals may not add due to rounding

Table 8: Tax Year 2021 Phase-in/Phase-out Ranges with Two Qualified Children

Qualified Income (credit table levels)	Returns	Total Allowed (Millions)	AVG
Phase-In (up to \$8,268)	62,508	\$56	\$901
Expansion Phase-Out (up to \$30,000)	199,137	\$101	\$506
Total	261,645	\$157	\$600

Source: Franchise Tax Board Return Merge File
Totals may not add due to rounding

Table 9: Tax Year 2021 Phase-in/Phase-out Ranges with Three or More Qualified Children

Qualified Income (credit table levels)	Returns	Total Allowed (Millions)	AVG
Phase-In (up to \$8,268)	32,200	\$33	\$1,029
Expansion Phase-Out (up to \$30,000)	98,760	\$55	\$561
Total	130,960	\$89	\$676

Source: Franchise Tax Board Return Merge File
Totals may not add due to rounding

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

a) 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.

b) 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, and
3. Comparing family income within a family to the appropriate 2021 federal poverty threshold.

Families with income below 50 percent of the threshold are considered to be living in deep poverty. The below methodology was 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 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 2022 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 2021 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. In California, one of the largest welfare programs providing direct cash grants, or public assistance payments, to working families (and specifically families with children) is CalWORKs. 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, 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 2021 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

Filing Status	0	1	2	3+
Single, Head of Household, Widow	\$155	\$507	\$1010	\$1,396
Married Filing Jointly	\$82	\$110	\$359	\$602

*Includes individuals receiving no public assistance

Source: Census Bureau 2021 American Community Survey

Another minor 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.

c) 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 2021 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)

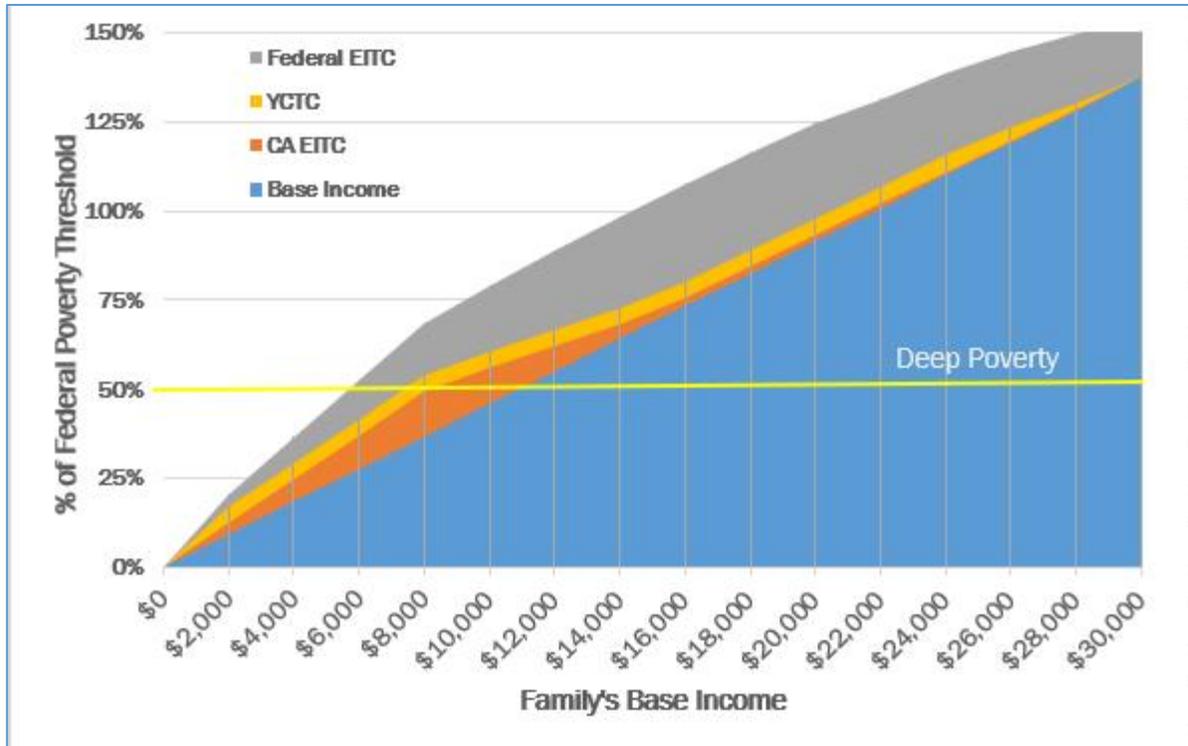


Figure 2 shows the range of effects that the CalEITC, YCTC and the federal EITC have on various base income levels for a family represented by a single qualified CalEITC taxpayer with two qualified children under 18 years of age. For purposes of this example, assume that a family's base income does not include income from public assistance payments. Based on the federal thresholds, this family's poverty income threshold is \$21,831 in 2021. Deep poverty status for this family would occur if income is below \$10,915, or half of the poverty level. The below tables 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: Minimum Income to be Lifted Out of Deep Poverty by the CalEITC and Fed EITC

Family's Base Income	CalEITC	Fed EITC	Lifted out of Deep Poverty
\$8,151	\$2,780	-	\$10,931
\$6,272	\$2,134	\$2,510	\$10,916

Table 12: Minimum Income to be Lifted Out of Deep Poverty by the CalEITC, YCTC, and Fed EITC

Family's Base Income	CalEITC	YCTC	Fed EITC	Lifted out of Deep Poverty
\$7,401	\$2,525	\$1,000	-	\$10,926
\$5,700	\$1,930	\$1,000	\$2,290	\$10,920

A summary of the estimated deep poverty results, without including public assistance income assumptions in base income, is provided in table 11. Of the 3,614,534 returns which were allowed the CalEITC, 623,000 families and 1,089,000 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, 44,000 families and 104,000 individuals are lifted above deep poverty.

Table 13: 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)	623	1,966		1,089	
Base Income + CA EITC	579	2,010	44	985	104
Base Income + CA EITC + YCTC	567	2,022	56	947	142
Base Income + CA EITC + YCTC + Fed EITC	463	2,126	160	721	368

Source: Franchise Tax Board Return Merge File
Totals may not add due to rounding

In the third iteration of the deep poverty calculations, both the CalEITC and the YCTC amounts are added to base income. 56,000 of the 623,000 families were in deep poverty are lifted above deep poverty income levels. The combination of the CalEITC and YCTC lifts over 142,000 individuals out of deep poverty compared to a family's base income without either EITC program. In the final analysis without public assistance payments, the CalEITC, YCTC and Federal EIC are added to base income. 160,000 of the 623,000 families in deep poverty are lifted above the deep poverty line. The combination of the three credits lifts 368,000 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 2021 (see table 7). 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 12.

Table 14: 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)	623	1,966		1,089	
Base Income (with Public Assistance)	592	1,997	31	1,015	74
Base Income (w/PA) + CA EITC	547	2,042	45	907	108
Base Income (w/PA) + CA EITC + YCTC	536	2,053	56	871	144
Base Income (w/PA) + CA EITC + YCTC + Fed EITC	442	2,147	150	675	340

Source: Franchise Tax Board Return Merge File
 Totals may not add due to rounding

Assuming average levels of public assistance, the number of individuals in deep poverty before receiving federal or California EITC drops from 1,089,000 to 1,015,000. The number of families in deep poverty drops from 623,000 to 592,000. In this simulation, the CalEITC lifts 45,000 families and 108,000 individuals out of deep poverty. The combination of CalEITC and YCTC lifts 56,000 families and 144,000 individuals out of deep poverty and the combination of the three credits lifts 150,000 families and 340,000 individuals out of deep poverty.