STATE OF CALIFORNIA
Franchise Tax Board

California Earned Income Tax Credit Report

Economic and Statistical Research Bureau

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This report fulfills the Franchise Tax Board's (FTB's) obligation under Revenue & Taxation Code section 17052(j) to annually provide a written report on the California Earned Income Tax Credit (CalEITC) 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 evaluates outreach strategies as required by Chapter 29 of the Statutes of 2018 (SB 840).

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

California Earned Income Tax Credit
Tax Year 2018

Chapter 21 of the Statutes of 2015 (SB 80) created the CalEITC, which provides a refundable credit for qualified taxpayers operative for taxable years beginning on or after January 1, 2015. The CalEITC credit was later modified by Chapter 96 of the Statutes of 2017 (SB 106), which extended income limits for CalEITC and expanded the program to income taxpayers with self-employment income. These changes are effective for tax years beginning 2017. The CalEITC credit was modified again by Chapter 52 of the Statutes of 2018 (SB 855), which extended the income limits for CalEITC and expanded the program to childless income taxpayers under 25 and over 65. These changes are effective for tax years beginning in 2018. The CalEITC credit was further modified by Chapter 39 of the Statutes of 2019 (AB 91), which extended the income limits to $30,000 for all taxpayers, and created the Young Child Tax Credit (YCTC). The YCTC is an additional $1,000 credit for taxpayers who qualify for CalEITC and have a child under 6 years old. These changes are effective for tax years beginning in 2019. 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 amount of the credit is also multiplied by a CalEITC adjustment factor for the taxable year. Unless otherwise specified in the annual Budget Act, the CalEITC adjustment factor for taxable years beginning on or after January 1, 2015, would be zero percent. The State Budget has set the adjustment factor at 85 percent for taxable years on and after 2015. 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 2018 taxable year, the maximum CalEITC (after applying the 85 percent CalEITC adjustment factor) ranged from $232 for an eligible individual without a qualifying child to $2,879 for an eligible individual with three qualifying children.

Generally a qualified taxpayer/return:

- Has adjusted gross income (AGI) of up to $16,750 if there are no qualifying children,
- Has AGI of up to $24,950 if there is one or more qualifying children,
- Has investment income, such as interest, dividends, royalties, and capital gains that does not exceed $3,699 for the entire tax year,
- Has social security numbers issued by the Social Security Administration that are valid for employment for the taxpayer, the taxpayer’s spouse, and any qualifying children,
- Does not use the “married/RDP filing separately” filing status, and
- Lives in California for more than half the tax year.

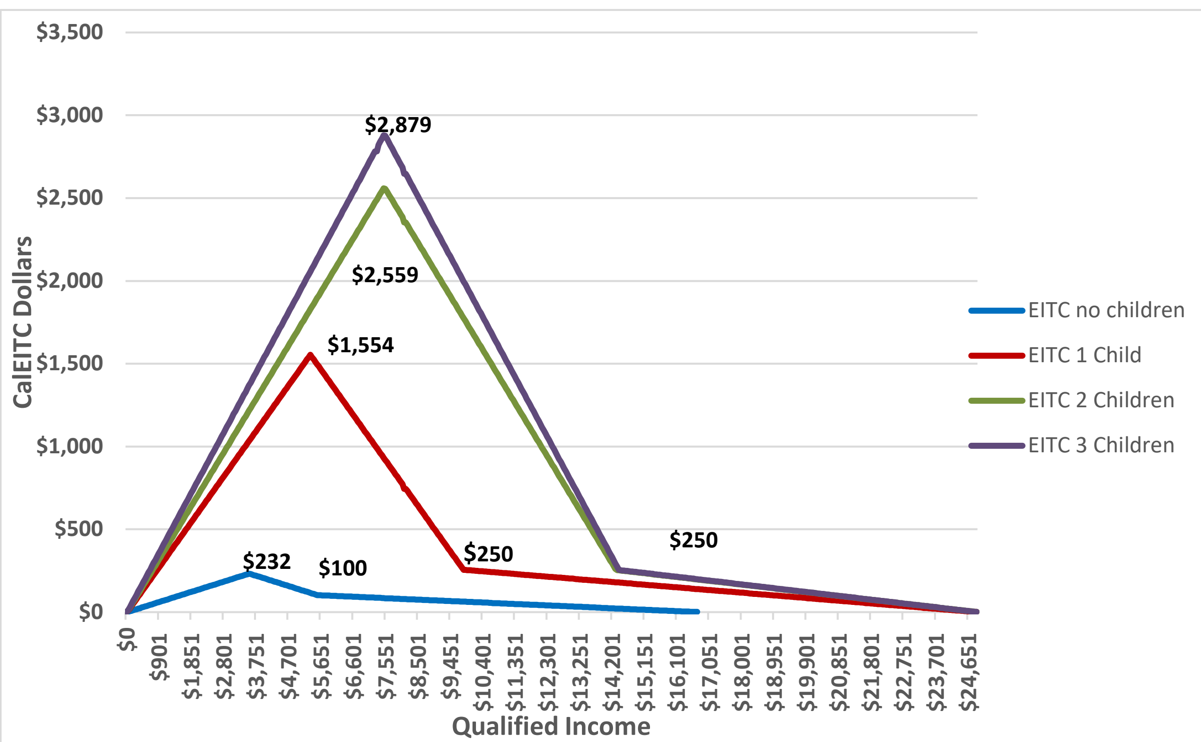
Brief History of the EITC

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 2018 tax year, the federal EITC qualifying income maximums for those with three qualifying children were $49,194 for Single, Head of Household, or Widowed returns, or $54,884 for Married Filing Joint returns. The maximum credits were $519 with no qualifying children, $3,461 with one qualifying child, $5,716 with two qualifying children, or $6,431 with three or more qualifying children.

Since 1975 many states have supplemented the federal EITC program by adopting their own versions of the federal program. Beginning with the 2015 tax year, California adopted its own earned income tax credit. Families with earned income are eligible, but the CalEITC differs from the federal program by imposing lower income limits, by not including marital status as a determinant of the credit amount, and initially, by not allowing self-employed income to count toward earned income requirements. Beginning in tax year 2017, self-employment income was included as qualifying towards earned income requirements. Beginning in tax year 2018, the credit was expanded to childless adults under 25 and over 64. 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: 2018 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 and CalEITC adjustment factor until the credit reaches $250 for taxpayers with qualifying children or $100 for taxpayers without qualifying children; and 3) after the credit reaches $250/$100, an alternate phase-out range where the credit is phased out more slowly until the credit reaches zero. For 2018, CalEITC credits are phased-out completely at qualified income levels of $16,751 with no qualifying children, and $24,951 with one or more qualifying children.

FTB Statutory Reporting Requirements

The FTB is required to annually provide a written report to the legislative committees listed at the beginning of this report, 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.

The information presented in sections 1 through 4 is based on tax year 2018 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 2019 as part of the poverty analysis. At the end of process year 2019, a total of $397 million of the CalEITC was allowed on 2,091,338 returns. This total includes 2,045,899 returns allowing $388 million of CalEITC for tax year 2018. The remaining returns processed during 2019 were for late filed 2015, 2016, and 2017 returns.

1) Returns Claiming the CalEITC

As of the end of process year 2019, a total of $388 million of the CalEITC was allowed on 2,045,899 tax year 2018 returns. 618,870 returns claimed at least $1 in self-employment income and received $114.6 million in credit. This is a significant increase from the amount reported at the end of the 2017 tax year when $343 million was allowed on 1,463,213 returns. This increase was expected due to expansion allowing program to childless taxpayers under 25 and over 65 to receive the credit as well as the increased income limitations.

2) The Number of Individuals Represented On Tax Returns Claiming the CalEITC

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.

There were over 3.75 million individuals represented on the 2,045,899 returns where the CalEITC was allowed for tax year 2018, including nearly 1.45 million dependents.

3) The Average CalEITC amount

For tax year 2018 returns where the credit was allowed, the average CalEITC amount was $190. This is 19 percent lower than in tax year 2017. The decrease in average credit was driven by the inclusion of young childless adults and childless seniors. Childless taxpayers receive smaller credit amounts than taxpayers with qualifying dependents. Approximately 63 percent of taxpayers receiving CalEITC fall in the range of the phase-out. Taxpayers in this range receive an average credit of $74, causing the total average credit to fall when compared to tax year 2017.

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. As graphically illustrated in Figure 1, the following are the tax year 2018 credit table phase-in/phase-out income ranges given the number of qualified children:

- Zero qualified children: Phase-in = $1 to $3,580, Phase-out = $3,581 to $16,750.
- One qualified child: Phase-in = $1 to $5,376, Phase-out = $5,377 to $24,950.
- Two qualified children: Phase-in $1 to $7,547, Phase-out = $7,548 to $24,950.
- Three qualified children: Phase-in $1 to $7,547, Phase-out = $7,548 to $$24,950.

Figure 2 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 1.2 million returns with no CalEITC qualified children, nearly 43,800 claimed exemptions for dependents that did not qualify for CalEITC purposes.

FIGURE 2: Tax Year 2018 Distribution of CalEITC credit amounts by Qualified Child

CalEITC Qualified Children	Returns	Total Allowed (Millions)	Avg.
No Qualified Children	1,217,083	$83.4	$69
1 Qualified Children	466,730	$123.0	$264
2 Qualified Children	249,645	$122.8	$492
3 Qualified Children	112,441	$58.5	$521
Total	2,045,899	$387.8	$190

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

Figure 3 shows that over 1.2 million returns with no qualified children received the credit. For this group, $83.4 million in total credits were allowed with an average credit amount of $69.

FIGURE 3: Tax Year 2018 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 $3,580)	191,221	$20.5	$107
Phase-Out (up to $16,750)	1,025,862	$63.0	$61
Total	1,217,083	$83.4	$69

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

Figure 4 presents CalEITC data for returns with one qualified child. Although there were 750,000 more returns with no qualifying children than with one qualifying child, returns with one qualified child received about 50 percent more credit than returns with no qualified children.

FIGURE 4: Tax Year 2018 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 $5,376)	38,781	$29.8	$769
Phase-Out (up to $24,950)	427,949	$93.2	$218
Total	466,730	$123.0	$264

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

Figure 5 and Figure 6 present the distribution of CalEITC for returns with two and three qualified children. As noted earlier in this report, the phase-in and phase-out income ranges for these two groups are the same, but the credit rates differ, resulting in an average credit amount of $492 for those with two qualifying children and $521 for those with three qualified children.

FIGURE 5: Tax Year 2018 Phase-in/Phase-out Ranges with Two Qualified Children

Qualified Income (credit table levels):	Returns	Total Allowed (Millions)	Avg.
Phase-In (up to $7,547)	27,592	$36.5	$1,322
Phase-Out (up to $24,950)	222,053	$86.3	$389
Total	249,645	$122.8	$492

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

FIGURE 6: Tax Year 2018 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 $7,547)	12,058	$17.7	$1,470
Phase-Out (up to $24,950)	100,383	$40.8	$407
Total	112,441	$58.5	$521

Source: Franchise Tax Board Return Merge File
The CalEITC calculation utilizes a maximum of three qualified children
Totals may not add due to rounding

In tax year 2018, 18 percent CalEITC returns had two or three qualifying children. These returns were awarded 47 percent ($181.4 million) of the $388 million in total CalEITC.

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 non-cash 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. The table in Figure 7 displays the official federal poverty thresholds for 2018.

Figure 7: Federal Poverty Thresholds for 2018 by Family Size and Number of Related Children Under 18 Years

Size of family unit	Weighted average thresholds	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual):	12,784									
Under age 65	13,064	13,064								
Aged 65 and older	12,043	12,043								
Two people:	16,247									
Householder under age 65	16,889	16,815	17,308							
Householder aged 65 and older.	15,193	15,178	17,242							
Three people	19,985	19,642	20,212	20,231						
Four people	25,701	25,900	26,324	25,465	25,554					
Five people	30,459	31,234	31,689	30,718	29,967	29,509				
Six people	34,533	35,925	36,068	35,324	34,612	33,553	32,925			
Seven people	39,194	41,336	41,594	40,705	40,085	38,929	37,581	36,102		
Eight people	43,602	46,231	46,640	45,800	45,064	44,021	42,696	41,317	40,967	
Nine people or more	51,393	55,613	55,883	55,140	54,516	53,491	52,082	50,807	50,491	48,546

Source: U.S. Census Bureau.

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, then (3) comparing family income within a family to the appropriate 2018 federal poverty threshold. Families with income below 50 percent of the threshold are considered to be living in deep poverty. This methodology was used to derive three income levels for comparison to the poverty level, (1) income without any earned income tax credit benefits, (2) income with CalEITC, and (3) income with the CalEITC 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 2019 original return data where the CalEITC was allowed instead of tax year data reported above. The reason for using process year instead of tax year is to include everyone who received CalEITC benefits in 2019 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.

One limitation was encountered in defining income. The Census federal poverty level income computations are derived using Current Population Survey data. The FTB utilizes data reported on tax returns. Some of the income items used to compute poverty status at the federal level are not reported on tax returns. One substantial income item used in determining poverty status but missing from reported return data is public assistance payments.

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. These assistance payments are included in the official federal poverty threshold income calculations. However, these types of payments are not taxable and not reported on tax returns. Therefore they are not available to the FTB on a taxpayer by taxpayer basis.

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 estimates 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 2018 American Community Survey, Public Use Microdata Set. The FTB is in conversations with the California Department of Social Services to improve the methodology used in this section.

Figure 8: 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	$107	$643	$1,139	$2,065
Married Filing Jointly	$86	$748	$506	$879

*Includes individuals receiving no public assistance
Source: Census Bureau 2018 American Community Survey

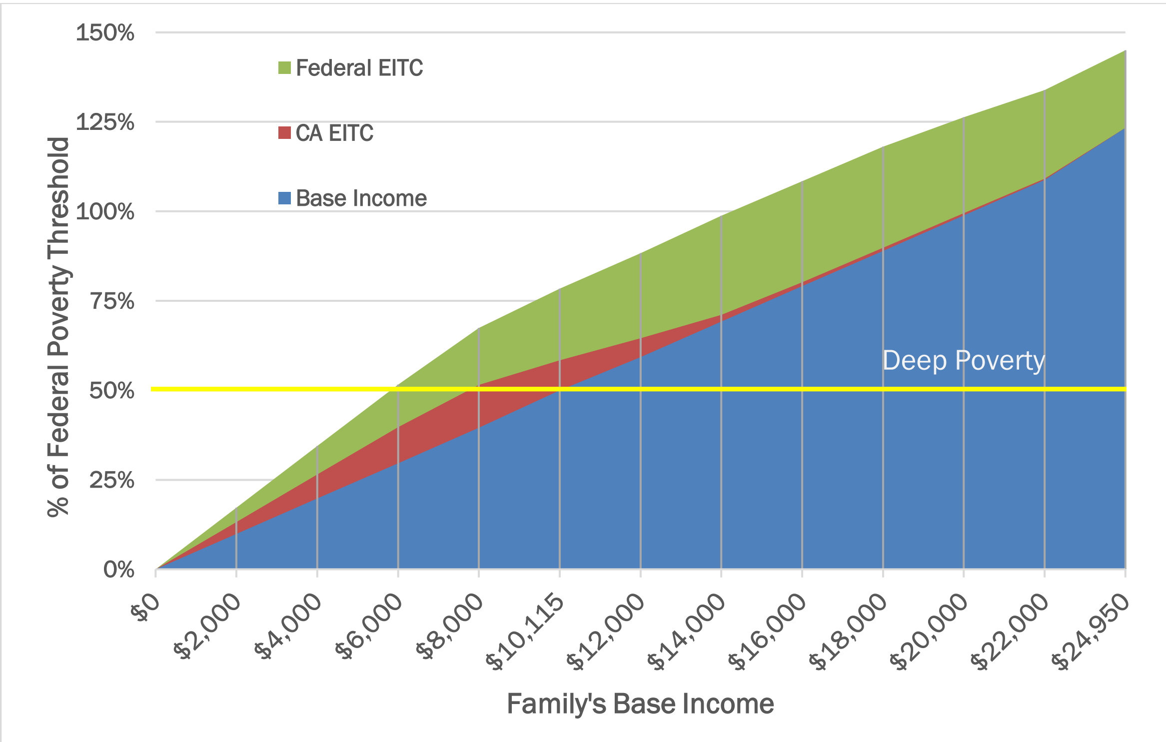
The FTB staff conducted a sensitivity analysis based on other assumptions about the amount of public assistance received by this population and concluded that the results presented here on the number of Californians lifted out of deep poverty is likely to be reasonable.

Another minor limitation in the data available to the FTB is in the definition of a family unit. The poverty thresholds reported in Table 7 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 in Table 7, it can be seen that 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 have a substantial impact on 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 9 provides a visual example of the 2018 deep poverty income scale.

FIGURE 9: 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)



This graph shows the range of effects that the CalEITC 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 shown in Figure 7, this family's poverty income threshold is $20,231 in 2018. Deep poverty status for this family would occur if income is below $10,116, or half of the poverty level. In this example, the addition of the CalEITC to base incomes between $7,561 and $10,115 would result in the family being lifted out of deep poverty. At a base income of $7,561 the CalEITC is $2,556 for process year 2019. Adding this EITC amount to base income brings the family's total income to $10,117 and above deep poverty.

By including the combined impact of the CalEITC and the federal EITC, the base income in this example could be much lower and still result in the family being lifted out of deep poverty. If the family's base income is between $5,806 and $10,115, it would qualify for enough combined state and federal earned income tax credits to see it lifted out of deep poverty. For instance, at a base income of $5,806 the CalEITC is $1,981 and the federal EITC $2,330 for process year 2019. Adding these EITC amounts to base income brings the family's total income to $10,117 and above deep poverty. These examples 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.

A summary of the estimated deep poverty results, without including public assistance income assumptions in base income, is provided in Figure 10. Of the 2,091,338 returns which were allowed the CalEITC, 547,000 families and 962,000 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, 36,000 families and 93,000 individuals are lifted above deep poverty.

Figure 10: Number of Families and Individuals Lifted Out of Deep Poverty - No Public Assistance (Thousands)

Income Items Used in Deep Poverty Calculations	Families in Deep Poverty	Families Above Deep Poverty	With EITC: Families Lifted Out Of Pre-EITC Poverty	Individuals In Deep Poverty	With EITC: Individuals Lifted Out Of Pre-EITC Poverty
Base Income (no Public Assistance)	547	1,544	-	962	-
Base Income + CA EITC	511	1,580	36	869	93
Base Income + CA EITC + Fed EITC	421	1,670	126	615	347

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 federal EITC amounts are added to base income. 126,000 of the 547,000 families who were in deep poverty are lifted above deep poverty income levels. The combination of the CalEITC and the federal EITC lifts over 347,000 individuals out of deep poverty compared to a family's base income without either EITC program.

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 2018 (see figure 8). 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 are provided in Figure 11.

Figure 11: Number of Families and Individuals Lifted Out of Deep Poverty – With Public Assistance (Thousands)

Income Items Used in Deep Poverty Calculations	Families in Deep Poverty	Families Above Deep Poverty	With EITC: Families Lifted Out Of Pre-EITC Poverty	Individuals In Deep Poverty	With EITC: Individuals Lifted Out Of Pre-EITC Poverty
Base Income (no Public Assistance)	547	1,544	-	962	-
Base Income (with Public Assistance)	507	1,584	40	849	113
Base Income (w/PA) + CA EITC	469	1,622	38	750	99
Base Income (w/PA) + CA EITC + Fed EITC	401	1,690	106	567	282

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 962,000 to 849,000. The number of families in deep poverty drops from 547,000 to 507,000. In this simulation, the CalEITC lifts 38,000 families and 99,000 individuals out of deep poverty. The combination of CalEITC and the federal EITC lifts 106,000 families and 282,000 individuals out of deep poverty.

The FTB staff conducted this deep poverty analysis under several other public assistance assumption scenarios and found that the number of families lifted out of deep poverty by the CalEITC is similar under these different assumptions.

6) Outreach

As part of California's annual budget, the Legislature provides money to conduct outreach, encouraging taxpayers to claim CalEITC, and to advertise and promote low income tax preparation sites that assist taxpayers in filing CalEITC claims. Chapter 29 of the Statutes of 2018 (SB 840) allocated $10 million toward efforts to increase participation in the CalEITC program. Of that amount, $5 million was allocated to increase awareness of CalEITC, $4.9 million to organizations that provide free tax preparation, and $100,000 to evaluate the most effective outreach strategies. Since the FTB does not have the infrastructure in place to reach low income individuals who may be eligible but don't file taxes, the FTB partners with the Department of Community Services and Development (CSD) through an interagency agreement. CSD issues grants for CalEITC outreach to non-profits who work in low income communities. By partnering with non-profits servicing low income populations, the FTB is able to leverage existing relationships to reach the most individuals possible.

In the 2019 annual CalEITC report, the FTB noted that studying the impact of CalEITC outreach was challenging because grant recipients were not required to track the information needed to assess the effectiveness of various outreach strategies; therefore, the FTB lacked the data to analyze specific outreach methods and to link outreach to a successful CalEITC claim at an individual level. In an effort to produce a more thorough report, the FTB worked with the California Department of Social Services (CDSS) and the grantees to collect additional data with the goal of determining what methods of outreach were most effective. The FTB asked grantees to submit names, addresses and other personally identifying information, as well as the type of outreach the individual received. With this data, the FTB hoped to analyze the effect of different methods of outreach at the individual level. The grantees submitted data on approximately 111,000 individuals. Unfortunately, most of the data was incomplete; therefore, the FTB was unable to reliably match the data submitted by the grantees to taxpayer data. Although FTB was unable to reliably match the records to taxpayer information, it does not necessarily mean that the individual did not file taxes or that the outreach was unsuccessful. It only means that FTB was unable to reliably match the CalEITC data to taxpayer data. Ultimately, FTB is not able to accurately assess outreach efforts with the data provided. However, over the past few years FTB has partnered with the California Policy Lab to rigorously study the impact of outreach. These efforts are summarized in the following section.

California Policy Lab (CPL) Partnership and Experimental Studies

The FTB and CPL began a partnership in late 2017 to help the FTB research important tax policy and administration topics. CPL is a UC-based research center that partners with California's state and local governments to generate scientific evidence that helps solve the state's most urgent problems by helping analyze and improve public programs through empirical research and technical assistance. One of the major focuses of this partnership has been on the EITC in California and how to improve take-up of the state and federal credit.

The FTB, through its partnership with CPL, worked with theCDSS, five county welfare departments, and the Golden State Opportunity Foundation (GSO) to study the impact of targeted text message and letter outreach campaigns on filing rates and credit claiming rates. During the 2018 and 2019 EITC outreach cycles, the partnership conducted a series of randomized control trial experiments (RCTs) to test the effectiveness of the outreach conducted.

Each experiment was designed to test whether targeted outreach increased tax filing and EITC claiming. Experiments also tested whether EITC eligible households were not filing because 1) they did not know the credit existed; 2) they did not realize how much they could receive, or 3) they faced real or perceived barriers to claiming the credit. The experiments also tested whether formal or informal letters generated greater results and if the messenger (governmental agencies vs. non-profits) made a difference in filing and claiming rates. Lastly, the partnership also tested whether people were more likely to take up assistance offered via phone call, text messaging, or online. Below is a brief summary of each experiment.

Experiment 1: Tax Year 2017 FTB Letters, March 2018

Using tax year 2017 filing data, the FTB selected 40,000 taxpayers who met the income thresholds for tax year 2018 CalEITC. Of the selected taxpayers, 30,000 received one of three letters from the FTB. The first was a basic letter that contained simple information about EITC eligibility and filing a return, the second included an image of a check in addition to the basic letter text, and the third letter directed the recipient to a website where they could calculate their credit amount. The remaining 10,000 taxpayers served as the control group. An error in implementation resulted in non-random assignment of treatment. While the non-random differences meant that the project could not be analyzed as an RCT, FTB and CPL nevertheless found no evidence that the letters increased filing rates.

Experiment 2: Tax Year 2017 GSO text messages, March-April 2018

GSO purchased marketing data from TargetSmart, a private marketing firm, on low income Californians who were potentially eligible for the EITC. CPL selected a random sample of 449,900 households to receive a text message from GSO. The text message reminded recipients to file taxes to claim the credit and shared a link to the CalEITC4Me calculator. 200,000 taxpayers were randomly selected to serve as the control group. Texts were sent in English with the option to receive a Spanish translation.

Experiment 3: Tax Year 2017 CDSS, March 2018

CDSS and CPL selected 38,000 households in San Diego and Sacramento Counties that appeared to be eligible for the federal EITC or CalEITC based on quarterly earnings. Of these households, 17,000 were randomly selected to receive a text message from the County reminding people to file their taxes and claim both the federal and state EITC, along with a personalized, estimated credit amount calculated from quarterly earnings data. If the recipient responded to the text, they were directed to myfreetaxes.org or to a local VITA site. The remaining 17,000 taxpayers served as the control group. Texts were sent in English and Spanish.

Experiment 4: Tax Year 2018 FTB Letters, February 2019

The FTB and CPL ran a follow-up to the first experiment that was conducted during the 2018 outreach season. In this follow-up experiment, which was larger than the original pilot, the FTB merged the TargetSmart data with recent tax filing records and selected 200,000 households who had not filed since tax year 2015. Of these households, 120,000 were randomly selected to receive one of eight letters from the FTB. The letters were split between formal letters on FTB letterhead and informal marketing letters. The formal and informal letters each contained four treatment arms: a simple letter that informed recipients of potential eligibility and the need to file taxes in order to claim the credit; a letter that included the average credit amount in addition to simple language on eligibility and filing; a letter that included address, hours of operation, and contact information of the nearest free in-person tax preparation site in addition to simple language on eligibility and filing; and a letter that included all the above information. The remaining 80,000 taxpayers served as the control group. Every recipient received both English and Spanish letters, with a link on the bottom of the letter to access translations in Chinese, Vietnamese, Russian, and Korean. This experiment aimed to test why EITC eligible households may not be filing. It also tested whether recipients are more responsive to formal or informal messaging from government agencies.

Experiment 5: Tax Year 2018 FTB+GSO Letters, February 2019

The FTB selected 120,000 households in the TargetSmart data, regardless of whether they previously filed. Of these households, 40,000 were mailed one of four letters. Two of the letters were mailed from the FTB, and two of the letters were mailed from the GSO. The FTB and GSO each mailed a formal and informal letter with information on the recipient's closest free, in person tax preparation site, and the average credit amount. The remaining 80,000 taxpayers served as the control group. This experiment tested whether recipients were more responsive to government or non-profit outreach, in addition to whether formal or informal messaging was more effective. Letters were sent in both English and Spanish.

Experiment 6: Tax Year 2018 GSO text messages, February-April 2019

The GSO selected 1.2 million individuals in the TargetSmart data. Of these individuals, 850,000 received one of four text messages. The text messages either directed the taxpayer to a web page with 1) information about the credits; 2) to call 211 or a local free tax prep hotline, 3) to receive filing assistance by text, or 4) received last year's average credit amount. The remaining 350,000 taxpayers served as the control group. This experiment aimed to test what type of assistance eligible households are more responsive to using.

Experiment 7: Tax Year 2018 CDSS CalFresh text message, March 2019

The county welfare offices of San Mateo, San Francisco, Santa Clara, Sacramento, and San Diego Counties selected 47,500 households who were enrolled in CalFresh and appeared eligible for the federal or state EITC based on quarterly earnings data for the experiment. Of these households, 35,250 received one of three text messages from the county. One text reminded recipients to file taxes and claim the EITC, another text contained the average credit amount, and the last text contained a personalized, estimated credit amount that was calculated based on the individual's quarterly earnings. The remaining 12,250 taxpayers served as the control group.

Findings

CPL recently published their findings. There are a few main takeaways from the experiments. First, personalized outreach with estimated credit amounts or the location of the nearest in-person free tax preparation site led to more engagement with online resources (such as the ftb.ca.gov EITC webpage or the CalEITC4Me.org site) than more generic messages. Second, government outreach was more effective in generating engagement with the outreach resources than non-profit outreach. Third, the tax filing and EITC claiming rate among CalFresh households in these experiments was quite high -- near 80% of households enrolled in CalFresh in these studies filed their taxes. Finally, households in the experiment enrolled in CalFresh who did not file and claim the EITC appeared to have lower incomes than those who filed.

However, none of the outreach conducted in these experiments led to increased tax filing or credit take up. This leads the FTB to conclude that targeted outreach in itself is not enough to increase the take-up rate for CalEITC or the federal EITC in California, and that targeted outreach should not be employed as the sole strategy to get non-filers to claim the credits.

More information on the experiments and analysis conducted can be found on CPL's website.

Appendix A: Tax Year 2018 CalEITC distribution by County

County	Allowed Count	% of Total	Allowed Amount	% of Total
ALAMEDA	62,180	3.04	10,340,661	2.67
ALPINE	51	0.0	10,693	0.00
AMADOR	1473	0.07	262,962	0.07
BUTTE	12,598	0.62	2,689,677	0.69
CALAVERAS	1956	0.1	438,885	0.11
COLUSA	1160	0.06	238,855	0.06
CONTRA COSTA	39,021	1.91	6,941,144	1.79
DEL NORTE	1350	0.07	368,882	0.1
EL DORADO	7,190	0.35	1,199,465	0.31
FRESNO	68,960	3.37	16,719,453	4.31
GLENN	1677	0.08	364,764	0.09
HUMBOLDT	8,284	0.4	1,568,221	0.4
IMPERIAL	17,503	0.86	4,511,952	1.16
INYO	900	0.04	190,295	0.05
KERN	58,424	2.86	14,726,429	3.8
KINGS	8,190	0.4	2,249,025	0.58
LAKE	3693	0.18	800,071	0.21
LASSEN	1007	0.05	260,244	0.07
LOS ANGELES	595,670	29.12	102,146,997	26.34
MADERA	9,072	0.44	2,272,007	0.59
MARIN	6,582	0.32	919,628	0.24
MARIPOSA	773	0.04	152,204	0.04
MENDOCINO	5,025	0.25	1,064,479	0.27
MERCED	18,341	0.9	4,898,019	1.26
MODOC	384	0.02	99,174	0.03
MONO	590	0.03	67,614	0.02
MONTEREY	19,235	0.94	3,800,767	0.98
NAPA	4462	0.22	698,801	0.18
NEVADA	4775	0.23	874,825	0.23
ORANGE	148,741	7.27	23,792,224	6.13
OTHER	26,189	1.28	3,045,427	0.79
PLACER	13,097	0.64	2,148,123	0.55
PLUMAS	927	0.05	203,347	0.05
RIVERSIDE	134,539	6.58	27,476,258	7.08
SACRAMENTO	85,959	4.2	18,275,648	4.71
SAN BENITO	2625	0.13	521,323	0.13

SAN BERNARDINO	138,507	6.77	30,485,406	7.86
SAN DIEGO	160,625	7.85	29,438,898	7.59
SAN FRANCISCO	31,711	1.55	4,234,533	1.09
SAN JOAQUIN	42,294	2.07	9,913,850	2.56
SAN LUIS OBISPO	11,075	0.54	1,835,031	0.47
SAN MATEO	20,553	1	2,725,935	0.7
SANTA BARBARA	19,605	0.96	3,601,256	0.93
SANTA CLARA	57,213	2.8	8,818,562	2.27
SANTA CRUZ	12,077	0.59	2,015,433	0.52
SHASTA	10,675	0.52	2,456,032	0.63
SIERRA	89	0.0	22,699	0.0
SISKIYOU	2592	0.13	636,225	0.16
SOLANO	19,077	0.93	3,731,716	0.96
SONOMA	17,426	0.85	2,743,683	0.71
STANISLAUS	33,075	1.62	7,749,129	2
SUTTER	5,796	0.28	1,354,784	0.35
TEHAMA	3302	0.16	824,168	0.21
TRINITY	613	0.03	142,233	0.04
TULARE	33,076	1.62	8,767,158	2.26
TUOLUMNE	2604	0.13	516,786	0.13
VENTURA	37,034	1.81	6,514,230	1.68
YOLO	9,665	0.47	1,726,189	0.45
YUBA	4,612	0.23	1,226,311	0.32
Total	2,045,899	$100.0	$387,818,790	100

Appendix B: 2018-2019 CalEITC Outreach Grantees

- 211 San Diego
- AARP Foundation
- Amador Tuolumne CAA
- City of Oakland
- Community Action Partnership of Santa Barbara County
- Golden State Opportunity Foundation
- Koreatown Youth and Community Center
- The University Corp
- United Way Bay Area
- United Way California Capital Region
- United Way Fresno and Madera Counties
- United Way of Kern
- United Way Orange County
- United Way San Diego
- United Way of California
- Youth Policy Institute