Economic Security Project

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Full and equitable access to state tax credits

Strategies to increase uptake of CalEITC and Young Child Tax Credit

INTRODUCTION

Without equitable administration and full uptake, tax credits like the CalEITC and Young Child Tax Credit don't fulfill their promises – of cutting poverty, of reducing racial inequities, and of improving the lives of the Californians most in need. To right this wrong, we must flip the burden from the individual taxpayer to the government to ensure that eligible families receive their tax credits without facing unnecessary hurdles.

THE PROBLEM: AN ONEROUS CLAIMING PROCESS

Thousands of California families miss out on poverty-reducing tax credits for which they are eligible every year. By design and practice, many who have the hardest time getting tax credits are those who need them the most. This includes thousands of people who are already connected to government agencies through other benefits. Nearly half a million SNAP recipients who are eligible for CalEITC don't receive it.

One major reason takeup in these programs is low is that the onus for claiming tax credits, as with other safety net benefits, falls on families and individuals to perform the right combination of tasks at the right time to unlock them – in this case, filing a tax return. The act of filing taxes is burdensome, especially for low-income families, immigrants, and people with language barriers. So these families – who are disproportionately Black, Latinx, Native American, and immigrants – remain largely unconnected to the tax system, effectively locking them out of hundreds or even thousands of dollars in benefits.

THE SOLUTION: STEPS TOWARD AN AUTOMATIC CLAIMING PROCESS

Nearly 8 million adults and children in California are eligible for the CalEITC and Young Child Tax Credit (YCTC). To make tax credits truly accessible, claiming should be made as automatic as possible for taxpayers. That means ultimately *flipping* the burden of claiming, calculation, and payment from the individual taxpayer to the government to ensure that eligible families receive their tax credits. Improving administration of the CalEITC and related tax credits is an opportunity for California not only to help millions of Californians make ends meet but also to showcase what the future of good government looks like.

Immediate priority: Streamline Young Child Tax Credit claiming for households with no earnings

The YCTC was recently expanded to include households without earnings for the first time. This is a groundbreaking policy that will help many California kids who live in families with the most need. However, claiming it will require many families who do not file taxes – because they have no income – to file a tax return, a requirement that is sure to exclude a significant portion of newly eligible non-filers or intermittent filers.

Newly eligible families without earnings need an easy, safe way to claim the YCTC that is less onerous than filing full federal and state tax returns. Analysis from Code for America found that 21 percent of filers could not provide earnings documentation required to file taxes, making this a significant barrier. A promising model is the system being developed for the Former Foster Youth Tax Credit (FFYTC), which will allow a person to self-attest that they qualify, setting in motion verification by the Franchise Tax Board (FTB). In the case of YCTC, households with children under 6 could self-attest that they have no income. This would grant consent to the FTB to verify income using existing earnings information from the IRS and other sources. This would maintain program integrity without adding undue burden for low-income families to get the credit.

"Nationwide, one in five eligible households don't receive the federal EITC."

Leverage existing data to reach more non-filers and make automatic payments

Leveraging existing data at the federal, state, and local levels is one critical component to making the tax credit claiming process more streamlined. One way is to use IRS data more proactively. While the timing and availability of IRS data does not perfectly align with the typical tax filing season, there is some precedent for disbursing payments automatically based on previous year's tax data. At the federal level, the IRS sent out stimulus checks and monthly advance Child Tax Credits *automatically* based on the previous year's tax return and the bank account information on file for those who had received refunds (with a robust nonfiler portal for people who had not filed tax returns already). Here in California, the Golden State Stimulus payments in 2021 were paid out automatically with no additional claim or schedule, based on tax returns filed for 2020 (a similarly automatic process was created for CalWORKs recipients to receive grants of equivalent value). All of these credits or grants were calculated and paid out based on previously submitted information, with no affirmative action on the part of the recipient.

Other states have made progress in this area: Maryland identifies residents who are eligible for the state credit but did not claim it, and the state will notify the taxpayer and provide a form to receive their unclaimed Maryland EITC. Illinois recently ran a pilot that used IRS data to identify and pre-populate the state tax credit claims schedule, averaging a 46% average success rate over the two year pilot. Washington state, which doesn't have a state income tax, will provide a full, flat state EITC of $300 per person to anyone who is eligible for even $1 of the federal EITC, which will be claimed via an online application.

The state can also expand its own data-sharing consents and capabilities among state agencies, while continuing to protect taxpayer privacy. The recent SB 1409 report from FTB found that while the data don't perfectly match up across agencies, 68% of the time, FTB was able to accurately estimate CalEITC within $100 dollars using CDSS and EDD data available through data-sharing. This would allow the state to, at minimum, identify a huge portion of eligible households, and even to automatically calculate and pay credits to a large percentage of them. (This would be made even easier with a minimum credit; more on this below.)

Redesign the credits with equity and access at the center

Create minimum flat credits to increase benefits, reduce poverty, and simplify eligibility

The phase-in structure of state and federal EITCs and CTCs locks the lowest-income families out of full credits – a design feature that perpetuates racist impacts and is antithetical to the central goals of these poverty-reducing credits. The phase-ins also make administration more complicated. With a minimum or flat credit – like California's YCTC – eligibility determination and credit calculation is simpler. Communication about the credits is also clearer, making it easier for families to better understand what they could receive. California could create a similar structure for CalEITC by enacting a minimum credit of around $250, increasing benefits for close to the 3.3 million – or 76% of – current CalEITC recipients whose credit is less than $200. Especially for households without dependents, this could pave the way for more innovation in automatic determination and payment.

Establish automatic or categorical eligibility for tax credits based on eligibility for other programs

The SB 1409 report documented several hurdles to automatic filing, including noting that even pre-filling tax forms poses a challenge because the information required to complete the tax credit schedule is more extensive than what is available to the FTB and, to some extent, even other agencies. One possible solution would be to establish automatic or categorical eligibility for tax credits based on eligibility for another social service program. For example, all people eligible for CalWORKs or certain Medi-Cal codes could be deemed automatically or categorically eligible for the CalEITC and/or the YCTC. Recipients could provide consent for data-sharing or additional payment information when they qualify.

An incremental step is to enhance the current business process of other social services so that anyone signing up or recertifying for any social services program would be asked the necessary questions to determine eligibility for tax credits and provided immediate and robust assistance with filing, perhaps by state-funded CBOs.

Streamline poverty-reducing tax credits into two simple credits

As a long-term strategy, policymakers should consider how to redesign and rebuild the tax credit system with equitable access and simpler, easier implementation at the center. For example, California could expand the YCTC to support all children (including adult dependent children) to create a true child allowance to support families with dependent children, regardless of earnings. The CalEITC (with improvements like a minimum credit amount) could then become a credit that boosts low earnings for workers, but that is not variable based on the number of dependents.

Decoupling support of children from the CalEITC would provide a simple, two-credit system: one credit to boost low earnings for workers, regardless of children – the CalEITC – and a separate credit designed to support children and dependents – a new California Child Tax Credit or Child Allowance. Under this system, the total tax credit received would not be lower for any families compared to the current system. Low-wage workers would get an income-boosting CalEITC based on their earnings. Californians with dependents would get a credit based on those dependents. Making each of these credits simpler and distinct would make calculation and distribution easier, and therefore more amenable to some of the other proposals in this brief. It would also make eligibility less confusing for Californians seeking to claim these valuable tax credits.

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