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Who receives the Earned Income Tax Credit in California?

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Who receives the Earned Income Tax Credit in California?

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Executive summary

In California, low-income households may be eligible to claim two Earned Income Tax Credits (EITCs) — one from the federal government and one from the state. Combined, these credits provided nearly \$7 billion to Californians in tax year 2017. Eighteen percent of state residents live in a household that receives the state or federal EITC, and the state legislature continues to increase its investment in the CalEITC.

This report is the first in a series on the EITC. In it, we describe the recipients of both EITCs in California. Where do they live and how much income do they make? How big are their households? How and when do they file taxes?

We find that the state and federal EITCs provide substantial benefits to low-income Californians. Though the CalEITC is relatively new, around 1.5 million households claimed it in tax year 2017. Nearly all of those households also claimed the federal credit. CalEITC claimants are more likely to be single and more likely to have zero dependents than are claimants of the federal credit. Eighty-six percent of federal EITC claimants who fell within the income ranges of the CalEITC also claimed the CalEITC.

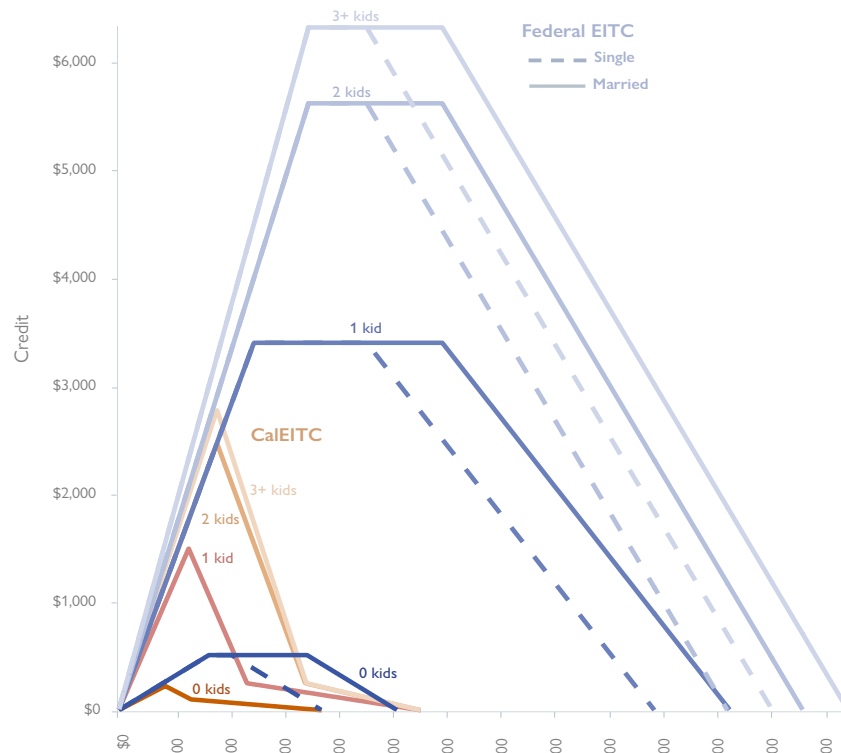
For those interested in increasing take-up of the EITC, it is helpful to understand the claiming patterns of eligible households. Claimants of the EITC are much more likely to file taxes early in the tax season, especially those claiming only the federal credit. Federal-only claimants are more likely to use a paid tax preparer, and those who use paid preparers tend to be from larger households than those who self-prepare or use free tax prep services. Nine in ten EITC claimants files electronically, which is similar to the tax filing population in general.

The history of earned income credits in California

The federal Earned Income Tax Credit (EITC) has been called “the most important means-tested transfer program in the United States.”¹ In 2018, \$61 billion was distributed to 25 million families nationwide.² The credit provides supplemental income to low-income workers in the form of a refundable tax credit that can be claimed by filing a federal tax return. Most recipients receive the EITC as a cash refund because the EITC exceeds the amount they owe in taxes.

The value of the credit increases with income through a certain level, holds constant as income continues to increase, then begins to decrease down to \$0 as income increases further. The amount of the credit is also determined by household size and marital status (the larger shapes in Figure 1). For example, a married family with two kids making \$20,000 in 2018 could claim a \$5,716 credit. The basic structure of the federal EITC has remained fairly constant since 1994 (in real terms), with minor increases in eligibility and generosity in 2002 and 2009.³

FIGURE 1. Federal and California 2017 EITC amounts at various income levels



1 Nichols and Rothstein 2016. Combined with the Child Tax Credit, the EITC raises more children out of poverty than any other tax program. National Academies of Sciences, Engineering, and Medicine 2019. An extensive literature also finds positive effects of EITC receipt on labor supply, health, and educational outcomes (Nichols and Rothstein 2016; Hoynes, Rothstein, & Ruffini 2017).

2 Internal Revenue Service 2019.

3 Crandall-Hollick 2018.

In 2015, California joined 28 other states and the District of Columbia in adopting a state-level supplemental EITC. The “CalEITC” generally works like the federal credit, requiring claimants to file a California tax return in order to receive a cash refund. But the state credit was also designed to compensate for perceived drawbacks of the federal EITC. For example, it is targeted at lower-income earners than the federal credit, especially households making less than \$15,000 (see the small shapes in [Figure 1](#)), and did not initially cover the self-employed. It also does not depend upon marital status, and, as of tax year 2018, allows claiming by filers without children in age groups not permitted under the federal credit, such as those 18–24 and over 64. [Table 1](#) below describes the main changes to the CalEITC since its inception.

TABLE 1. [Summary of changes to CalEITC](#)

TAX YEAR	SUMMARY OF CHANGES	NUMBER AND AMOUNT OF CLAIMS
2015	Established credit. Credit amount: \$214 – \$2,653. Income eligibility: \$0 – \$13,869.	386,000 claims 815,000 individuals \$200 million in credits
2016		376,000 claims 802,000 individuals \$201 million in credits
2017	Self-employment income allowed. Income eligibility increased for filers with children to that of full-time minimum wage salary (~\$22,300). Small increase in credit amounts.	1,463,000 claims 3,010,000 individuals \$343 million in credits
2018	Eligibility expanded to workers without qualifying dependents ages 18–24 and over 64. Modest increases in income eligibility (up to \$24,950). Small increase in credit amounts.	Data not yet available to authors.
2019	Increased income eligibility to \$30,000, and pegs to future inflation. Approximately doubles credit amounts for higher-earning claimants. Young child tax credit of up to \$1,000.	Tax year not yet complete.

Source: FTB, California Earned Income Tax Credit reports, 2015–2017.

Who claims earned income credits in California?

We use tax year 2017 data from the Franchise Tax Board (FTB) to provide a more granular look at California claimants of the federal and state EITC. The FTB provided us more comprehensive access to data from the 87% of California filers that file electronically, so in some cases we adjust our estimates to extrapolate from that data to the full filing population. Where precise aggregates have been reported by the FTB or IRS, we use those figures for consistency, though such figures change slightly over time as filings are updated. We use tax year 2017 data because detailed 2018 data were not yet available at the time of publication. When not otherwise indicated, we use the term “household” to refer to tax filing unit, though some households could have multiple filing units.

18% of Californians lived in households receiving the state or federal EITC in 2017.

In tax year 2017, 2.8 million households in California claimed the federal EITC, and 1.5 million claimed the CalEITC. Approximately 7.2 million Californians live in households that claimed the federal EITC,⁴ and 3.1 million live in households that claimed the CalEITC, representing 18% and 8%, respectively, of the total population of the state. A county-by-county breakdown is available in the Appendix.

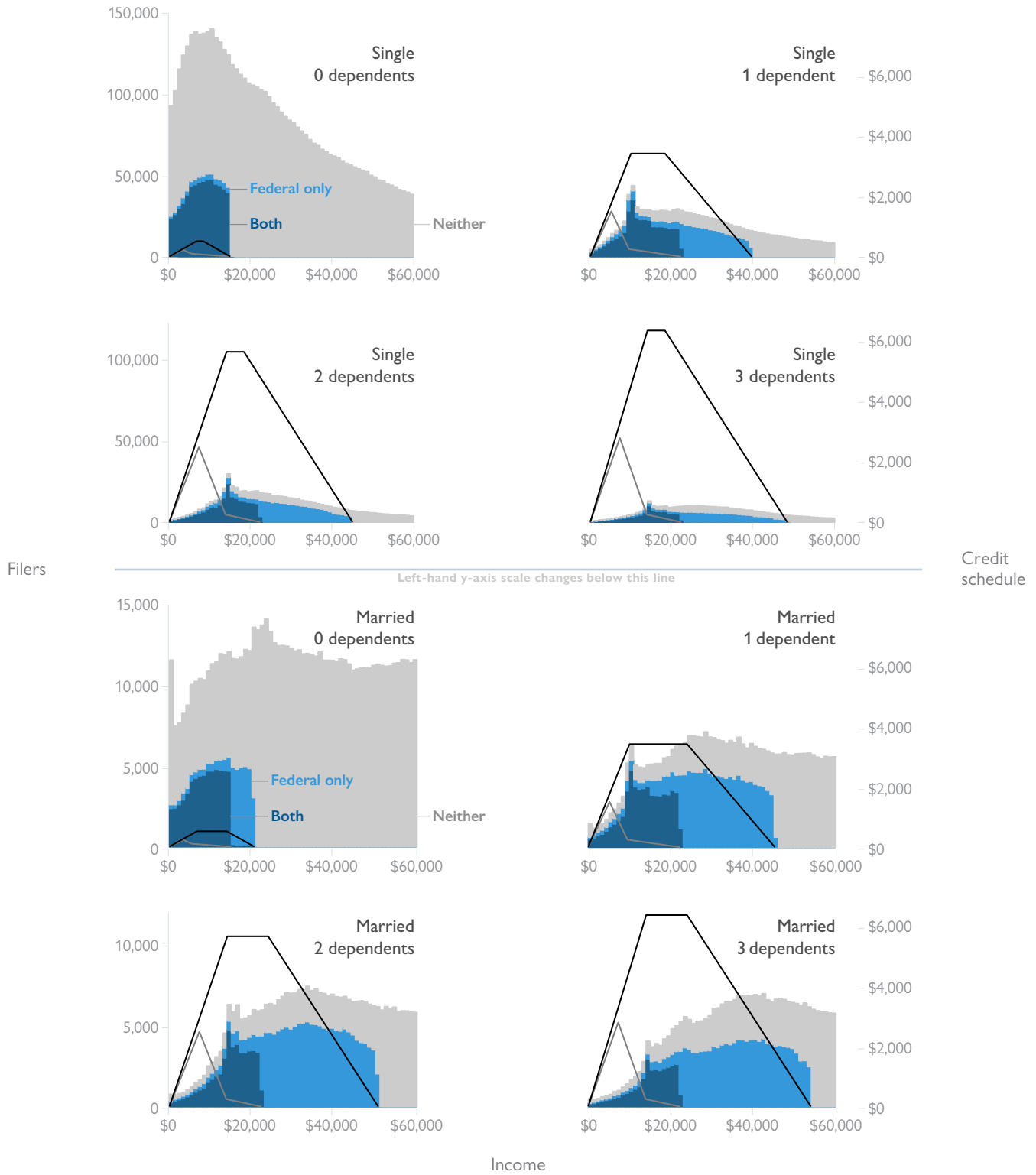
Most filers claiming the CalEITC are also eligible for the federal EITC, and in 2017, 99% of households that claimed the CalEITC also claimed the federal EITC. Meanwhile, federal EITC eligibility is much broader than eligibility for the CalEITC, so only 53% of California households claiming the federal credit also claim the CalEITC. Within the CalEITC income range, 86% of federal EITC claimants also claimed the CalEITC.

Figure 2 shows the number of state and federal EITC claimants at each level of household income, broken out by marital status and the number of dependents.⁵ At each income level, the stacked bars show how many filers claimed federal or state credits (left axis). The superimposed shapes show the value of the state and federal credits at each income level (right axis). The figures do not show non-California filers or filers who filed only a paper federal return, as we do not have access to data for them. As a result, the total number of “federal only” EITC claimants in the figures below is underestimated by 26,000–126,000 (or 2–10% of federal-only EITC claimants), but we don’t know these claimants’ distribution across incomes or household compositions.

⁴ This number assumes that the average number of people in households claiming the federal EITC is the same in the 2.7 million households for which we can determine claims for both credits and household size as it is in the total 2.8 million claimants seen by the IRS.

⁵ We use the number of tax-eligible dependents rather than the number of EITC-eligible dependents. The latter is stricter and would be marginally more accurate (they align 93% of the time for CalEITC claimants), but we do not observe the number of EITC-eligible dependents for anyone not claiming the CalEITC, and so chose the former number for consistency.

FIGURE 2. Number of households claiming the 2017 EITC, by income and household composition



Source: FTB 2017 data on California filers. Note: We use “Married” and “Single” as shorthand for “Married filing jointly” and “All others,” respectively. There are about 19,000 filers that claim the CalEITC but not the federal EITC, but we do not report them in this figure. We also don’t show the 7,000 EITC claimants with AGIs above the income limits, which may be claiming in error or have income adjustments we don’t observe. We use the number of tax-eligible dependents rather than the number of EITC-eligible dependents for consistency.

Filers claiming both EITCs in the above figures necessarily fall off at the end of the CalEITC-eligible income range, while “federal only” EITC claimants fall off at the end of the federal EITC schedule. One cannot infer EITC *eligibility* from these figures, because households with seemingly eligible incomes may have other unobservable reasons they are not eligible (e.g., they are older than 65, have EITC-ineligible dependents, or are undocumented).⁶ However, it is reasonable to assume that the majority of federal EITC claimants in 2017 were eligible for the CalEITC in the income ranges where the CalEITC applies.

The figures show that CalEITC recipients are lower-income households, which are the intended beneficiaries of the credit. The figures also show that the number of claiming households usually peaks near the point at which the combined credit is most valuable for each household size. This could reflect either labor supply responses, with individuals adjusting their work effort to obtain a maximum EITC, or misreporting of earnings.⁷

Single households make up the vast majority of federal and state EITC claims, especially for the CalEITC. **Table 2** shows the household composition for claimants of the federal and state EITCs. The proportion of EITC filers that are married filing jointly is nearly twice as high for the federal credit as it is for the state credit. CalEITC filers also claim no eligible dependents at a rate 1.6 times that of federal EITC filers. These differences are likely driven by the different income ranges targeted by the two credit programs.

TABLE 2. **Share of state and federal EITC returns in different household types**

	CALEITC		FEDERAL EITC	
	SINGLE	MARRIED	SINGLE	MARRIED
0 dependents	41%	4%	24%	4%
1 dependents	25%	4%	26%	7%
2 dependents	14%	3%	17%	8%
3+ dependents	6%	2%	8%	6%
Total	86%	14%	75%	25%

Source: FTB 2017 data on California filers.

Note: Federal EITC columns do not include non-California filers or non-electronic filers that did not claim the CalEITC, but we do not expect that would greatly change these results. We use “Married” and “Single” as shorthand for “Married filing jointly” and “All others,” respectively. Column sums may not match column totals due to rounding.

⁶ We aim to address eligibility -- the “take-up gap” -- in a subsequent brief. These figures cannot answer that important question.

⁷ A forthcoming California Policy Lab study (Bernhardt, Prohofsky, and Rothstein, 2019) finds that this bunching is concentrated among filers reporting independent contracting or sole proprietorship income. See Saez (2010) for a thorough investigation of bunching at the credit schedule’s kink points.

Although many families without children claim the credit, the vast majority of claim amounts go to families with children. [Tables 3 and 4](#) show aggregate information on EITC claimants and claim amounts, broken out by household composition and by who has claimed the federal EITC, the CalEITC, or both.

TABLE 3. Number of households and individuals in those households receiving one or both EITCs, by household composition (2017, in thousands)

		FEDERAL EITC ONLY		CALEITC ONLY		BOTH EITCS	
		HOUSEHOLDS	INDIVIDUALS	HOUSEHOLDS	INDIVIDUALS	HOUSEHOLDS	INDIVIDUALS
Single	0 kids	54	54	15	15	598	598
	1	365	730	1.5	2.9	371	741
	2	272	815	.47	1.4	205	615
	3+	150	647	.15	.65	89	376
Married	0 kids	41	83	1.1	2.2	65	131
	1	130	391	.37	1.1	63	190
	2	167	666	.24	.95	52	207
	3+	145	789	.11	.60	33	181
Totals		1,324	4,176	19	25	1,476	3,038

Source: FTB 2017 data on California filers.

Note: We use IRS data for the total claimant counts of federal-only filers, and extrapolate household composition from the distribution of federal-only filers we see in the California data (reliable within ±4%). We use “Married” and “Single” as shorthand for “Married filing jointly” and “All others,” respectively. We use the number of tax-eligible dependents rather than the number of EITC-eligible dependents for consistency.

TABLE 4. EITC claim amounts for different household compositions (2017)

HOUSEHOLD COMPOSITION	FEDERAL EITC		CALEITC		
		AVERAGE CLAIM	TOTAL CLAIMS	AVERAGE CLAIM	TOTAL CLAIMS
Single	0 kids	\$330	\$215 M	\$75	\$46 M
	1	\$2,340	\$1,721 M	\$273	\$101 M
	2	\$3,595	\$1,714 M	\$487	\$100 M
	3+	\$3,980	\$952 M	\$537	\$48 M
Married	0 kids	\$379	\$40 M	\$70	\$5 M
	1	\$2,270	\$439 M	\$220	\$14 M
	2	\$3,383	\$738 M	\$413	\$21 M
	3+	\$3,664	\$652 M	\$454	\$15 M
Totals			\$6.47 B	\$351 M	

Source: FTB 2017 data on California filers.

Note: We use IRS data for the total claim amounts of federal-only EITC filers, and extrapolate household composition from the distribution of federal-only filers we see in the California data (reliable within ±4%). The IRS reports calendar year 2018 EITC filings in California between \$6.55 and \$6.65 billion. We use “Married” and “Single” as shorthand for “Married filing jointly” and “All others,” respectively. We use the number of tax-eligible dependents rather than the number of EITC-eligible dependents for consistency.

The vast majority of EITC claimants hail from urban areas, and follow the same distribution of the state’s population more generally. [Table 5](#) shows the percentage of claimants of each credit who reside in zip codes that are designated as rural and urban by Census data.

TABLE 5. EITC claimants in rural and urban areas

	RURAL ZIP CODE	URBAN ZIP CODE
% of CalEITC filers	4%	96%
% of federal EITC filers	5%	95%
% of Californians overall	5%	95%

Source: FTB 2017 data on California filers.

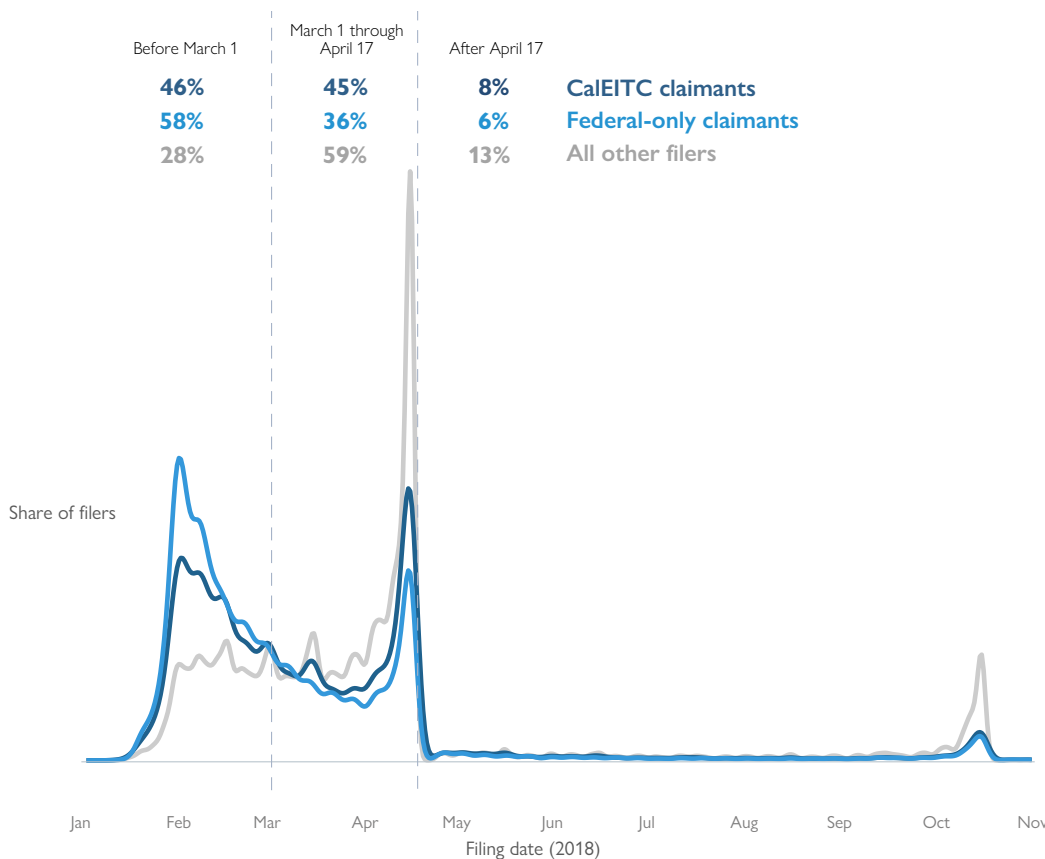
Note: The federal EITC row does not include non-California filers or paper filers that did not claim the CalEITC, but we do not expect that would greatly change these results.

When and how do filers claim earned income credits?

For those interested in increasing take-up of the EITC, it is helpful to understand the claiming patterns of eligible households. Do EITC claimants file taxes early in tax season or do they wait until April 15th is approaching, like so many other filers? Do EITC claimants use free tax preparation services, or do they use paid preparers or self-prepare?

Our analysis finds that filers claiming the EITC are much less likely to delay in filing their taxes, especially those claiming the federal EITC. **Figure 3** shows a bimodal distribution, with most EITC claimants filing before March and another group filing just before the tax filing deadline. The early April group is much less pronounced for EITC filers than for the remainder of taxpayers, and the same is true for extensions. This pattern of earlier filing may be because EITC claimants usually receive a refund, which they want as soon as possible, whereas other filers may put off the possibility that they owe taxes.

FIGURE 3. EITC claimants, especially those claiming only the federal credit, file earlier than other tax filers



Source: FTB 2017 data on California filers. Note: Filers filing on or after November 1, 2018 are included in the percentages but are not plotted, and represent 1% of total tax year 2017 filers. The federal EITC-only line does not include non-California filers or paper filers that did not claim the CalEITC, but we do not expect that would greatly change these results.

Fifty-eight percent of households claiming both EITCs use a paid tax preparer, as compared to 72% of those claiming only the federal EITC and 62% of all others. [Table 6](#) shows how EITC claims and claimants differ based on who prepares the taxes. Paid preparers tend to file EITC claims for larger households, so average claim amounts are higher for those returns than for self-prepared returns or for returns prepared by free services (i.e., VITA). Even so, the median CalEITC claim for paid preparers is \$101. Free preparation services serve relatively few Californians (2%), and the returns they file tend to be for smaller households.

TABLE 6. CalEITC claims by preparer type

PREPARER	FRACTION OF CALEITC CLAIMANTS	MEAN CALEITC CLAIM	TOTAL CLAIMED	MEAN ELIGIBLE DEPENDENTS	PERCENT MARRIED FILING JOINTLY
Paid	58%	\$243	\$210 M	0.91	18%
Free (e.g., VITA)	3%	\$227	\$11 M	0.56	14%
Self (including tax prep software)	39%	\$223	\$130 M	0.69	9%

Source: FTB 2017 data on California filers.

Note: “Self” preparers include those using software such as TurboTax and H&R Block’s self-preparer software, including those who use free versions of those software. “Free” preparers include those using free in-person tax preparation sites, such as VITA sites.

The vast majority of CalEITC claimants file electronically (90%), at a slightly higher rate than CA state tax filers overall (87%). [Table 7](#) shows how e-filers compare to paper filers and those using the state’s free Cal-File system. Paper filers tend to have fewer dependents than e-filers, and tend to have smaller EITC claims.

TABLE 7. CalEITC claims by filing method

FILING METHOD	FRACTION OF CALEITC CLAIMANTS	MEAN CALEITC CLAIM	TOTAL CLAIMED	MEAN ELIGIBLE DEPENDENTS	PERCENT MARRIED FILING JOINTLY
Electronic	90%	\$239	\$321 M	0.83	14%
Paper	9.5%	\$198	\$28 M	0.67	16%
Cal-File	0.5%	\$219	\$1.6 M	0.64	9%

Source: FTB 2017 data on California filers.

Further research

With the state having recently enacted significant expansions of the CalEITC, several important questions remain about this crucial anti-poverty program. For example, California lacks good information about who is taking up the state and federal credits, because it can be difficult to know the full universe of potentially eligible non-filers. Without baseline take-up rates, it is difficult to know who should be filing that is not, and how to focus EITC outreach. Another question concerns the efficacy of current efforts to promote take-up of the EITC. We also don't know how households are using EITC together with other safety net programs like Medi-Cal, CalFresh, or CalWORKS to form a more comprehensive safety net. We hope to shed light on these and other important questions in future CPL research.

APPENDIX

TABLE 8. Estimated EITC claim details by county

COUNTY	CALEITC CLAIMS	MEAN CALEITC CLAIM	TOTAL CALEITC CLAIMED	FEDERAL EITC CLAIMS	MEAN FEDERAL EITC CLAIM	TOTAL FEDERAL EITC CLAIMED	MEAN DEPENDENTS	PERCENT MARRIED
Alameda	45,790	\$205	\$9,377,000	78,610	\$2,008	\$157,845,000	1.11	25%
Alpine	<100	\$200	<\$10,000	<100	\$2,596	<\$150,000	1.50	10%
Amador	940	\$253	\$238,000	1,860	\$1,988	\$3,707,000	1.19	28%
Butte	9,340	\$276	\$2,581,000	16,410	\$2,169	\$35,598,000	1.29	25%
Calaveras	1,270	\$268	\$341,000	2,420	\$2,064	\$4,984,000	1.22	29%
Colusa	700	\$241	\$169,000	1,680	\$2,409	\$4,042,000	1.64	32%
Contra Costa	28,070	\$222	\$6,245,000	50,270	\$2,096	\$105,355,000	1.20	22%
Del Norte	940	\$374	\$351,000	1,870	\$2,403	\$4,503,000	1.50	26%
El Dorado	4,550	\$223	\$1,016,000	8,250	\$1,902	\$15,679,000	1.11	26%
Fresno	50,980	\$306	\$15,602,000	96,780	\$2,683	\$259,614,000	1.58	23%
Glenn	1,060	\$291	\$310,000	2,370	\$2,436	\$5,781,000	1.59	31%
Humboldt	5,860	\$247	\$1,446,000	9,620	\$1,922	\$18,495,000	1.13	21%
Imperial	13,960	\$304	\$4,243,000	24,550	\$2,705	\$66,419,000	1.53	31%
Inyo	640	\$248	\$158,000	1,160	\$2,101	\$2,446,000	1.31	20%
Kern	43,210	\$313	\$13,541,000	83,900	\$2,759	\$231,515,000	1.61	25%
Kings	5,920	\$329	\$1,949,000	12,390	\$2,624	\$32,502,000	1.65	25%
Lake	2,640	\$282	\$747,000	4,960	\$2,325	\$11,522,000	1.37	25%
Lassen	620	\$363	\$224,000	1,290	\$2,225	\$2,875,000	1.46	29%
Los Angeles	457,740	\$204	\$93,339,000	825,400	\$2,273	\$1,876,067,000	1.21	22%
Madera	6,540	\$316	\$2,062,000	12,830	\$2,680	\$34,391,000	1.63	27%

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COUNTY	CALEITC CLAIMS	MEAN CALEITC CLAIM	TOTAL CALEITC CLAIMED	FEDERAL EITC CLAIMS	MEAN FEDERAL EITC CLAIM	TOTAL FEDERAL EITC CLAIMED	MEAN DEPENDENTS	PERCENT MARRIED
Marin	4,460	\$166	\$743,000	7,140	\$1,689	\$12,060,000	0.90	19%
Mariposa	560	\$278	\$156,000	980	\$2,106	\$2,067,000	1.22	30%
Mendocino	3,790	\$265	\$1,005,000	6,890	\$2,223	\$15,318,000	1.30	25%
Merced	13,160	\$335	\$4,404,000	25,890	\$2,614	\$67,674,000	1.64	29%
Modoc	360	\$316	\$113,000	720	\$2,342	\$1,687,000	1.42	35%
Mono	360	\$174	\$63,000	600	\$1,797	\$1,085,000	1.02	19%
Monterey	13,790	\$250	\$3,451,000	28,330	\$2,402	\$68,050,000	1.48	22%
Napa	2,880	\$198	\$570,000	5,810	\$1,940	\$11,271,000	1.24	24%
Nevada	3,410	\$236	\$804,000	5,600	\$1,834	\$10,271,000	1.00	25%
Orange	103,690	\$197	\$20,475,000	189,020	\$2,130	\$402,574,000	1.19	28%
Placer	8,300	\$213	\$1,769,000	15,050	\$1,946	\$29,288,000	1.15	27%
Plumas	770	\$284	\$218,000	1,340	\$2,049	\$2,743,000	1.20	28%
Riverside	95,570	\$255	\$24,417,000	190,300	\$2,537	\$482,771,000	1.48	26%
Sacramento	61,910	\$270	\$16,732,000	112,090	\$2,365	\$265,044,000	1.38	26%
San Benito	1,800	\$265	\$478,000	3,790	\$2,301	\$8,717,000	1.44	22%
San Bernardino	102,380	\$275	\$28,125,000	196,860	\$2,577	\$507,349,000	1.47	24%
San Diego	113,090	\$231	\$26,094,000	212,000	\$2,230	\$472,752,000	1.29	27%
San Francisco	24,560	\$153	\$3,760,000	38,530	\$1,680	\$64,724,000	0.83	29%
San Joaquin	29,930	\$298	\$8,918,000	58,630	\$2,466	\$144,578,000	1.50	25%
San Luis Obispo	7,240	\$224	\$1,620,000	12,880	\$1,912	\$24,622,000	1.12	24%
San Mateo	13,900	\$169	\$2,344,000	24,300	\$1,816	\$44,113,000	1.04	22%

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COUNTY	CALEITC CLAIMS	MEAN CALEITC CLAIM	TOTAL CALEITC CLAIMED	FEDERAL EITC CLAIMS	MEAN FEDERAL EITC CLAIM	TOTAL FEDERAL EITC CLAIMED	MEAN DEPENDENTS	PERCENT MARRIED
Santa Barbara	12,780	\$244	\$3,115,000	24,750	\$2,212	\$54,738,000	1.34	24%
Santa Clara	40,890	\$195	\$7,992,000	71,660	\$1,917	\$137,401,000	1.10	24%
Santa Cruz	8,660	\$211	\$1,831,000	15,890	\$2,042	\$32,441,000	1.19	21%
Shasta	6,940	\$291	\$2,016,000	12,170	\$2,170	\$26,413,000	1.29	27%
Sierra	<100	\$225	<\$20,000	<200	\$1,825	<\$300,000	1.23	31%
Siskiyou	1,830	\$323	\$591,000	3,330	\$2,165	\$7,218,000	1.31	29%
Solano	13,080	\$247	\$3,231,000	24,770	\$2,138	\$52,967,000	1.28	20%
Sonoma	11,640	\$207	\$2,407,000	21,740	\$1,865	\$40,545,000	1.13	21%
Stanislaus	23,580	\$302	\$7,128,000	44,830	\$2,452	\$109,908,000	1.50	27%
Sutter	4,260	\$291	\$1,238,000	8,500	\$2,398	\$20,378,000	1.49	38%
Tehama	2,850	\$338	\$961,000	5,630	\$2,405	\$13,532,000	1.52	32%
Trinity	460	\$271	\$124,000	800	\$1,967	\$1,567,000	1.17	28%
Tulare	24,350	\$317	\$7,727,000	48,600	\$2,773	\$134,756,000	1.63	25%
Tuolumne	1,860	\$244	\$452,000	3,380	\$2,067	\$6,978,000	1.18	27%
Ventura	25,400	\$219	\$5,568,000	48,820	\$2,176	\$106,226,000	1.28	24%
Yolo	6,180	\$243	\$1,506,000	11,650	\$2,190	\$25,498,000	1.33	26%
Yuba	3,420	\$337	\$1,153,000	6,580	\$2,534	\$16,671,000	1.59	31%
Missing/ Out of state	19,850	\$177	\$3,511,000	73,350	\$1,894	\$138,965,000	1.12	36%
Total	1,494,790	\$235	\$350,769,000	2,800,000	\$2,300	\$6,438,657,000	1.30	25%

Source: FTB data, HUD Office of Policy Development and Research.

Note: When a zip code intersects multiple counties, we designate it as belonging to the county containing the largest portion of the zip code's residences. We use IRS data for the total counts of federal EITC claimants, and extrapolate county claims from the distribution of federal EITC claimants we see in the California data (reliable within ±4%). Values for Alpine and Sierra counties are suppressed due to small cell sizes. The last two columns report figures for the population receiving either the federal EITC or the CalEITC.

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