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SB 1409 – CalEITC Tax Filing Pilot Program

SUMMARY

SB 1409 would require the Franchise Tax Board (FTB) to develop a plan to implement a no-return tax filing pilot program with the goal of increasing CalEITC claims from eligible families and individuals.

BACKGROUND

The CalEITC is one of California's most successful anti-poverty programs. Coupled with the federal EITC and CalFresh, CalEITC helps reduce child poverty the most. In order to receive the refundable credit, individuals must file a tax return. However, because many households fall below the threshold that requires them to file a tax return, they miss claiming the credit.

California has invested significantly in extending the credit to those that need it most, recently allowing self-employed individuals to qualify. Additional investment for education and outreach has helped households become aware they qualify for the CalEITC. However, this has not been sufficient. Eligible families continue to leave credit funds unclaimed. A recent study by the California Policy Lab concluded outreach alone is not sufficient to increase claims of the CalEITC among non-filers.

The study recommends the continued assessment of alternative strategies to reduce administrative burdens for eligible non-filers. A no-return tax program means an eligible family would not have to file a tax return to receive the CalEITC, but rather FTB would be able to automatically send the credit to every eligible family.

Many of California's most economically fragile households do not receive the credits they are eligible to receive. In fact, an estimated one in five eligible California households does not receive the credit -- leaving about \$2 billion in unclaimed state and federal credits each year. Often this is because the household income is below the filing threshold, but not always -- an estimated 50,000 households file taxes but do not claim the credits they have earned.

The COVID-19 pandemic and extreme economic downturn has highlighted the need for our hard working families to receive economic supports as efficiently and rapidly as possible.

PROBLEM

CalEITC eligible families continue to leave millions of dollars unclaimed. In order to receive the CalEITC, a person must file a tax return. Many low-income families are unaware they qualify for the credit or simply do not file a tax return because they do not earn enough to be required to file a return. This means the neediest working families who would benefit most from the CalEITC miss receiving the credit.

SOLUTION

A no-return tax filing pilot program would help increase the number of eligible individuals and families that receive the CalEITC and thus lift children out of poverty.

SUPPORT

Economic Security Project Action (Co-sponsor)
End Child Poverty in CA/The GRACE Institute (Co-sponsor)

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