



March 4th, 2024

Honorable Mike McGuire
President pro Tempore
California State Senate

Honorable Robert Rivas
Speaker
California State Assembly

Honorable Scott Wiener
Chair
Senate Budget and Fiscal Review Committee

Honorable Jesse Gabriel
Chair
Assembly Committee on Budget

Re: CalEITC Coalition 2024-25 State Budget Priorities — Support \$20M in Free Tax Preparation Assistance and Education & Outreach Funding, Protect Progress in CalEITC and YCTC, and Equitably Raise Revenues

Dear Legislative and Budget Committee Leaders:

We, the undersigned organizations, thank the Governor and Legislature for their full support of state tax credits such as the California Earned Income Tax Credit (CalEITC) and Young Child Tax Credit (YCTC) which are targeted at supporting families with low incomes. These critical programs are some of the state's best anti-poverty tools and were created and expanded upon through the leadership of this Administration and the Legislature.¹ We are grateful to see investments in the CalEITC, YCTC, and the Foster Youth Tax Credit (FYTC) protected in the Governor's January budget.

We write in strong support of the following proposals, which are necessary to maximize the impact of these programs:

- **Maintain funding for the Free Tax Preparation Assistance (FTPA), ITIN Application Assistance, and Education & Outreach Programs at \$20 million;**
- **Protect CalEITC and YCTC investments for households with low incomes and expand investments when the budget condition improves; and**
- **Consider revenue-raising options to avoid budget cuts that will harm families.**

1. Maintain \$20 Million in Free Tax Preparation Assistance, Education and Outreach Funding

The State Legislature and Budget Leaders must protect Free Tax Preparation Assistance services so California families with low incomes can claim all the tax credits to which they're entitled instead of spending a portion of their tax refund on a multi-billion dollar tax filing software company to file their taxes. Our most vulnerable communities must continue to have easy access to free, culturally competent, community-based, IRS-certified tax preparation

¹ Kimberlin, S. and Torres Jr., M. (2022, September). Q&A: How Did Public Supports Lower Poverty in 2021? California Budget & PolicyCenter.
<https://calbudgetcenter.org/resources/ga-how-did-public-supports-lower-poverty-in-2021/>.

services. Unfortunately, Free Tax Preparation Assistance, Education and Outreach funding is set to be slashed in half by the end of 2024 after two years of expanded funding. This decreased funding would diminish the capacity and tax-filing support that trusted community partners currently offer California communities.

California families with incomes less than \$30,950, who are eligible for state tax credits like the CalEITC and YCTC, have the hardest time making ends meet in a state where basic necessities cost too much. California is leading the way to lift these families out of poverty and build equity with the proven anti-poverty power of the CalEITC and YCTC, but these tax credits ONLY make it to families if they file a tax return.

In low-income communities, tax filing services and ITIN application assistance are year-round activities. We urge California to maintain current funding levels for these critical resources. If funding is not maintained, Community-Based Organizations (CBOs) will have to limit their operating hours and levels of service, and even more families may turn to paid preparers who oftentimes engage in predatory practices with consumers, such as “refund advance” programs that charge exorbitant fees.

Free Tax Preparation Assistance is essential to Californians, especially hard-to-reach households

With the full \$20 million in funding, nonprofit-run Volunteer Income Tax Assistance (VITA) sites increased their capacity to file California households’ tax returns for free, recruit more volunteers, and provide services year-round, which was especially helpful for communities impacted by California’s 2023 winter floods. Additionally, United Ways of California VITA partners operated a statewide VITA Bus tour to visit areas affected by the floods. Other outreach organizations ensured their VITA locator maps were up to date after the tax filing deadline was extended, distributed mailers to impacted areas, and updated guides, email alerts, and social media kits in English, Spanish, and Chinese.

Free tax help offered at California VITA sites and via the VITA bus are critical for hard-to-reach households such as:

- Households with \$0 in earned income;
- Households who may not qualify for federal tax credits;
- People who generally make \$64,000 or less;
- Persons with disabilities;
- Limited English-speaking taxpayers;
- And active duty or retired military personnel, or dependents.

Maintaining the \$20 million in funding provides CBOs the ability to engage in critical community-driven outreach focused on connecting eligible tax filers to free tax prep help and educating families about claiming the CalEITC, YCTC, FYTC, and other federal credits. It enables CBOs to properly recruit and retain volunteers year-round. And equally important, it improves the capacity of community organizations to connect families with wrap-around services like CalFresh, Medi-Cal, and HeadStart.

Free Tax Preparation Assistance collectively saves millions of dollars on tax preparation

On average, households filing their taxes with a commercial preparer lose \$200-\$350+ to costly paid tax preparer services.² Conversely, families filing their taxes using FREE tax preparation assistance pay \$0, saving several hundreds of dollars or more each year. VITA volunteers are IRS-certified and have 94% accuracy — notably higher than paid tax prep services. Furthermore, according to Prosperity Now (formerly CFED), “By connecting tax filers to all possible tax benefits that they may not be aware of such as the EITC and Child Tax Credit, VITA services help them access federal dollars and increase the state’s overall revenue.”³

Given the data we’ve received from California United Way grantee partners and Golden State Opportunity VITA partners, we can already report that the state’s investment has saved Californians over \$30 million in tax preparation fees by using FTPA services. With the money saved on tax filing, Californians can afford to cover the cost of gas, groceries, and other basic needs.

Education and Outreach programs increase awareness and uptake of the CalEITC, YCTC, and FYTC

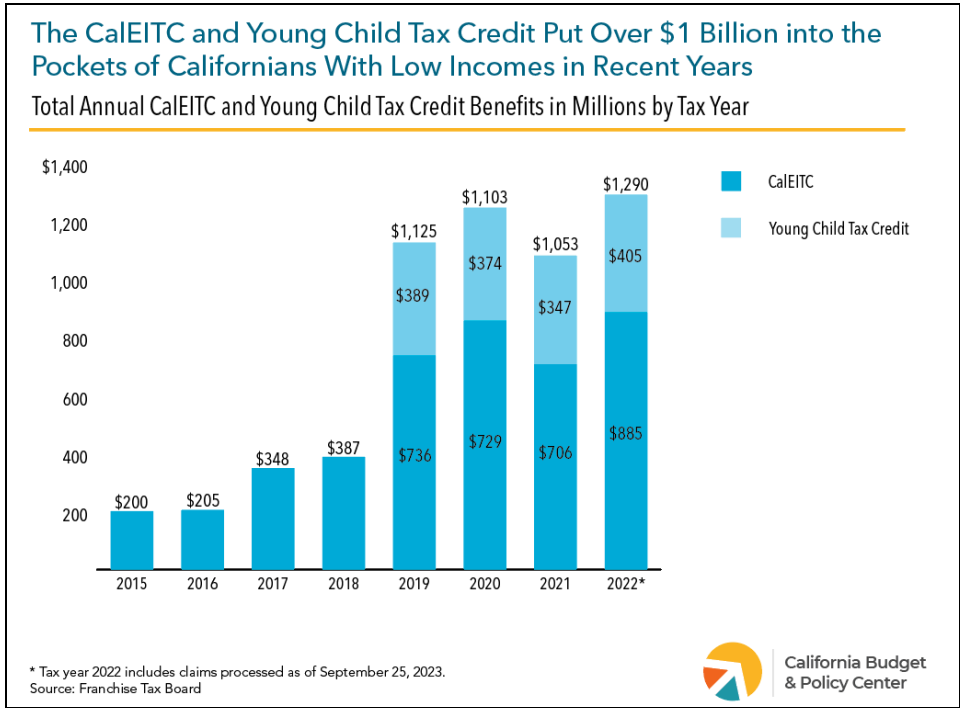
In 2019, the California Legislature required the Franchise Tax Board (FTB) to create a report that would analyze how to improve and simplify the tax filing system for low and very low-income filers to “increase the number of CalEITC Claims”⁴ for the then-newly expanded CalEITC. In the report, FTB recommended the state should 1) “increase grant funding for community organizations to engage in outreach and free tax preparation services” and 2) “provide ongoing grant funding so outreach and filing assistance can be conducted year-round.”⁵ Maintaining \$20 million in Free Tax Preparation Assistance, Education and Outreach funding accomplishes these recommendations and meets the state’s goal of increasing CalEITC uptake. Last year CalEITC, YCTC, and FYTC claims put over \$1.3 billion back into the pockets of more than 3.8 million Californians who needed it the most.

² NSA. National Society of Accountants Reports on Average Tax Return Preparation Fees. <https://connect.nsacct.org/blogs/nsa-blogger/2017/01/27/national-society-of-accountants-reports-on-average-tax-return-preparation-fees>

³ https://prosperitynow.org/files/resources/SOAP_State_VITA_Support_1-19.pdf

⁴ SB 1409 Citation

⁵ The Franchise Tax Board. Report On the Study to Increase the Number of Claims for the California and Federal EITC. <https://data.ftb.ca.gov/Other/SB1409-Report-To-The-Legislature/skci-cguj/data>



Individual Taxpayer Identification Number (ITIN) applications and renewals are critical services provided for free at VITA sites

The current wait time for an ITIN is between 11 to 17 weeks, meaning that those who can apply for an ITIN face significant wait times to access relief. Further, the availability of Certified Acceptance Agents (CAAs), who are vital to the ITIN application process, is limited across the state. With more support for nonprofits to become CAAs, more Californians will be able to successfully apply for or renew their ITIN, file their taxes, and claim all the tax credits they're eligible for. In 2023 alone, California United Way grantee partners and Golden State Opportunity VITA partners submitted over 3,500 ITIN applications — a 187% increase from the year prior. This impressive increase was made possible despite an IRS moratorium on Certified Acceptance Agents, which was only recently lifted.⁶

⁶ <https://www.irs.gov/individuals/itin-acceptance-agent-program-changes>.

Free Tax Preparation Assistance provided at VITA sites complements the IRS Direct File Pilot

As the state plans its future engagement with the IRS's Direct File pilot, we look forward to working alongside the Legislature and Administration to make tax preparation and filing free for all Californians. VITA services are community-based providers that Californians trust to handle sensitive data information and answer questions in real time. Even those who are eligible for the federal pilot are still turning to VITA volunteers for tax filing assistance. We hope to collaborate with this Administration, the Legislature, and the Franchise Tax Board in the coming months to chart a future for California's participation in the pilot that eventually offloads simpler tax filing cases to the IRS's Direct File pilot, allowing VITA volunteers to "provide intensive, hands-on services for taxpayers with special circumstances or complicated tax situations."⁷

2. Protect CalEITC and YCTC Investments, Expand Investments When the Budget Condition Improves

Tax credits encourage work, improve the health of infants and mothers, boost educational outcomes and lifelong earnings for children, and are good for local economies.⁸ The CalEITC, combined with the federal EITC, is widely considered one of the strongest poverty-fighting tools in the state to support low- to middle-income working households. Tax credits are an essential form of income - an astonishing 8 in 10 Californians who struggle to meet their basic needs live in working families.⁹ For households with dependents ages 0-18 years, their tax refunds account for 12% of estimated annual earnings; that number rises to 14% in households with children under 5 years.¹⁰

About 3 out of 4 California workers who are likely eligible for the CalEITC are people of color, including about half who are Latinx, 11% who are Asian, and 7% who are Black.¹¹ In addition, about 35% of California workers who likely qualify for the CalEITC are immigrants, and 52% are women. Investing in the CalEITC and YCTC can serve as vital tools to reduce high poverty rates among families of color while promoting racial and gender equity.¹²

Permanently Increase the CalEITC Minimum Credit for All Tax Filers to at least \$300

⁷ <https://codeforamerica.org/news/direct-file-vita-impact/>

⁸ EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds (2015)

<https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>.

⁹ Kimberlin S. and Anderson A. (2022, October). A Job Does Not Guarantee Economic Security in California. California Budget & Policy Center.

<https://calbudgetcenter.org/resources/a-job-does-not-guarantee-economic-security-in-california/>.

¹⁰ https://shift.hks.harvard.edu/wp-content/uploads/2022/04/Tax_Filing_4_7.pdf

¹¹ Budget Center analysis of US Census Bureau, American Community Survey public-use microdata, using an income tax simulation model developed for the California Poverty Measure, a joint project of the Stanford Center on Poverty and Inequality and the Public Policy Institute of California. Microdata were downloaded from IPUMS-USA (University of Minnesota, www.ipums.org). Based on CalEITC in tax year 2019, adding ITIN filers, who became eligible for CalEITC in tax year 2020.

¹² Anderson, A. and Kimberlin, S. (2022, October). How California Can Support Workers and Families With

the CalEITC. California Budget & Policy Center.

<https://calbudgetcenter.org/resources/how-california-can-support-workers-and-families-with-the-caleitc/>.

In tax year 2022, 77.86% of CalEITC claimants earned less than \$300 from the CalEITC. 65.78% of claimants received less than \$200, and 33.85% earned less than \$100. For filers without dependents, the current maximum CalEITC does not even cover the average costs of paid preparer services (an estimated \$267 for individuals with wage income using commercial filing services in 2019).

A bigger minimum credit incentivizes tax filing. Every year, there are billions of unclaimed dollars in federal funding left on the table by Californians who do not file their taxes. A larger state credit would incentivize tax filing and uptake of federal credits, like the EITC, boosting household incomes and local economies. A CalEITC minimum would also simplify outreach and education efforts. Currently, state agencies and employers cannot accurately predict the amount an individual could be eligible for due to the CalEITC's complex formula structure. If every CalEITC-eligible filer is guaranteed \$300, it would reduce confusion for those at the front lines of delivering outreach and education. Lastly, and most importantly, a minimum credit provides a more meaningful tax refund to Californians struggling to meet the basic cost of living across the state.

Expand YCTC Eligibility to All CalEITC Eligible Families

The YCTC helps reduce poverty among more than 8 in 10 families of color eligible for the tax credit. We thank both the Legislature and the Administration for removing the \$1 income requirement to qualify for the YCTC in the 2022-2023 budget year. This action expanded the credit to families without earnings from work, acknowledging the unpaid and undervalued labor of caregiving, and indexed the credit to inflation so that it kept up with rising prices. However, the YCTC is only available to families with children ages 0 to 5. This excludes three types of low-income families – 1) children ages 6-18, 2) children ages 19-23 who are students, and 3) children of any age with permanent and total disabilities. In total, nearly two-thirds (62%) of families who qualify for the CalEITC are not eligible for the YCTC, creating an unintended “cliff effect” for families who lose the YCTC when their children age out of eligibility.

Child care, healthcare, transportation, housing, and the many other child-related investments families make do not become less expensive as children age. California families earning \$30K or less shouldn't be excluded from this benefit simply because their child is no longer under six years old. Expanding the YCTC to all CalEITC families should also ease administration for the credit by aligning the two policies. In addition, this will make DSS in-reach efforts easier because CalWORKs families with any aged child would be eligible for the credit, yielding further efficiencies. These outcomes are only possible if eligible families access the full tax credit amount, and the best way to ensure this happens is to improve access to Free Tax Preparation Assistance (FTPA) services.

Align the Maximum Income Eligibility for the CalEITC, YCTC, and FYTC

In addition to these pivotal expansions to the CalEITC and YCTC, we ask the Legislature and Administration to take action this year to ensure equity and alignment in income eligibility for these tax credits in future years. Starting in tax year 2023, the maximum income amount to qualify for the CalEITC is different from that of the YCTC and FYTC. This will likely confuse tax filers. We are proposing statutory changes through trailer bill language to ensure that all three credits have the same maximum income amount needed to qualify. Specifically, we propose making a slight adjustment in the phase-out of the YCTC and FYTC so that these credits fully

phase out at the same income level as the CalEITC fully phases out going forward. We anticipate this to come at little to no cost to the state.

3. Reject Spending Cuts, Pursue Opportunities to Raise Revenues

As strong champions of equity, we ask Budget leaders to reject spending cuts to safety net services that are directed toward families struggling to keep up with the state's staggering cost of living. We implore the Legislature to address the budget problem by raising revenues. Despite this year's budget shortfall, California is still slated to spend billions of dollars on tax breaks for highly profitable corporations. Including corporate tax revenue options in the budget, such as those proposed by the California Budget & Policy Center, could protect families from harmful budget cuts this year and free up resources to invest in families in future years.¹³

We must protect the progress we have made and invest in the programs that have been shown to prevent further poverty, promote economic stimulus, and increase returns on investment. California has an opportunity to make bold steps toward closing the racial income and wealth gap by creating a more equitable distribution of financial resources toward our most disenfranchised communities. We understand the value of returns on investment in our local communities and economies, and we respectfully urge you to support our budget request and work toward its quick passage.

For more information, please contact Anna Hasselblad at ahasselblad@unitedwaysca.org.

Sincerely,
The CalEITC Coalition

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¹³<https://calbudgetcenter.org/resources/three-ways-state-policymakers-can-raise-revenues-to-advance-californias-priorities/>

Alameda County Community Food Bank
All Home
Asian Americans Advancing Justice
Bay Area Regional Health Inequities Initiative
California Association of Food Banks
California Budget and Policy Center
California Catholic Conference
Children's Defense Fund-California
California Immigrant Policy Center
California Labor Federation
California Pan-Ethnic Health Network
California Welfare Directors Association
California Women's Law Center
Courage California
Dolores Huerta Foundation
Economic Security Project Action
Equal Rights Advocates
First 5 Association of California
Friends Committee on Legislation of California
GLIDE
Golden State Opportunity Foundation
GRACE/End Child Poverty in California
Greenlining Institute
Inland Equity Partnership
John Burton Advocates for Youth (JBAY)
Justice in Aging
La Familia
Latino Community Foundation
Lutheran Office of Public Affairs California
National Association of Social Workers- CA
Chapter
NextGen California
Nourish California
ÓRALE (formerly - Long Beach Immigrant
Rights Coalition)
Orange County United Way
PICO California
PolicyLink
Rise-Economy (Formerly California
Reinvestment Coalition)
San Diego for Every Child
San Diego Immigrant Rights Consortium
San Francisco-Marin Food Bank
SEIU California
The Children's Partnership
United Way California Capital Region
United Way Bay Area
United Ways of California
Universal Income Project
Western Center on Law and Poverty
Young Invincibles