STATE OF CALIFORNIA
Franchise Tax Board

California Earned Income Tax Credit and Young Child Tax Credit Report

Economic and Statistical Research Bureau

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California Earned Income Tax Credit and Young Child Tax Credit Report

This report fulfills the Franchise Tax Board's (FTB's) obligation under Revenue & Taxation Code sections 17052(j) and 17052.1(g)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 includes the number of tax returns claiming the Young Child Tax Credit (YCTC), the average YCTC amount and the number of qualifying children represented on tax returns claiming the YCTC.

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

Background

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 in 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 age 5 or younger. These changes are effective for tax years beginning in 2019. In 2020, Chapters 19 and 87 of the Statutes of 2020 (AB93 and AB1876) expanded the program to taxpayers with Individual Taxpayer Identification Numbers (ITINs). These changes are effective for tax years beginning in 2020. No significant changes were made for tax year 2021. 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 2020 taxable year, the maximum CalEITC (after applying the 85 percent CalEITC adjustment factor) ranged from $243 for an eligible individual without a qualifying child to $3,027 for an eligible individual with three qualifying children.

Generally a qualified taxpayer/return:

- Has adjusted gross income (AGI) of up to $30,000,
- Has investment income, such as interest, dividends, royalties, and capital gains that does not exceed $3,882 for the entire tax year,
- Has a valid social security number or individual taxpayer identification number (ITIN) for you, your 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.

For the 2020 taxable year, the maximum YCTC was $1,000 for taxpayers with a qualifying child and begins to be phased out for taxpayers with income over $25,000. The credit is completely phased out at $30,000. Generally a qualified taxpayer/return has received the CalEITC and has at least one child age 5 or younger at the end of the tax year.

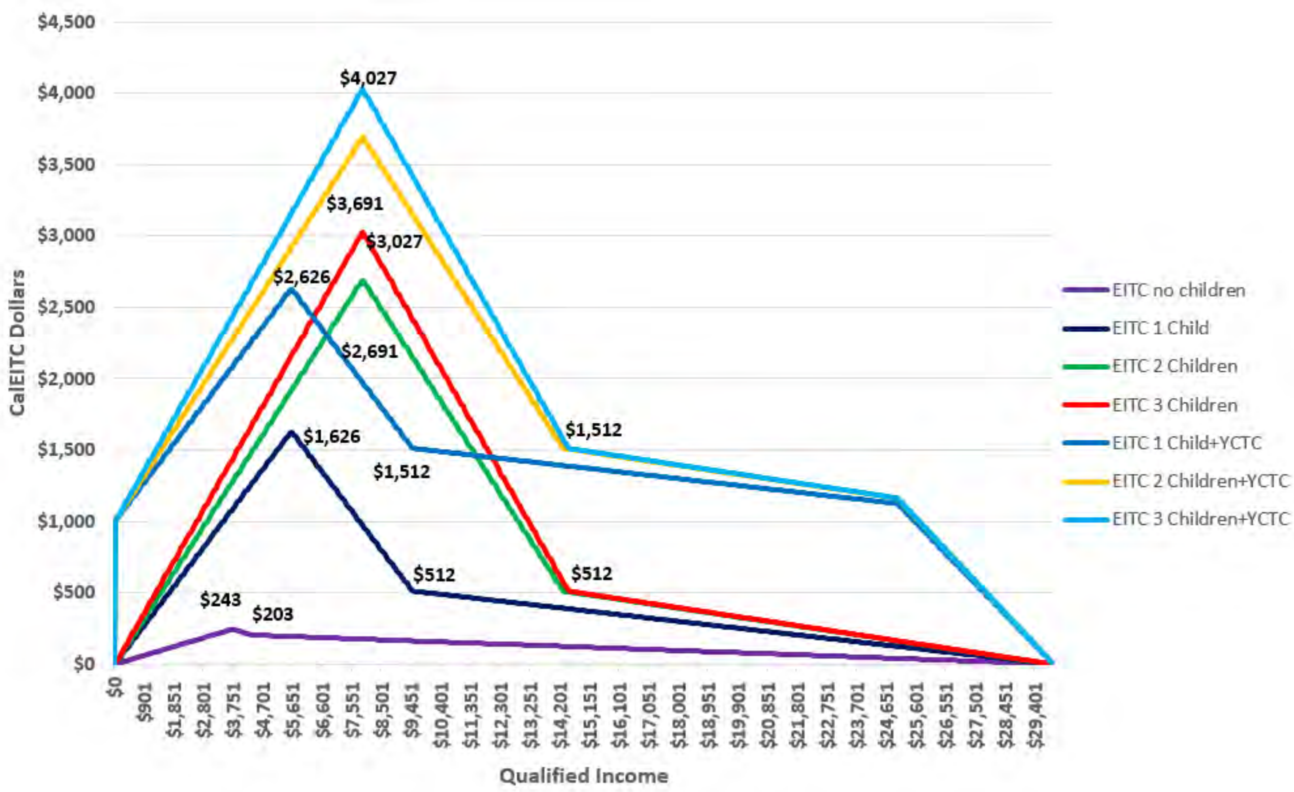
Brief History of the EITC

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 2020 tax year, the federal EITC qualifying income maximums for those with three qualifying children were $50,594 for Single, Head of Household, or Widowed returns, or $56,844 for Married Filing Joint returns. The maximum credits were $538 with no qualifying children, $3,584 with one qualifying child, $5,920 with two qualifying children, or $6,660 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 filing 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. Beginning in tax year 2020, the credit was expanded to taxpayers with ITINs. 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: 2020 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 $512 for taxpayers with qualifying children or $203 for taxpayers without qualifying children; and 3) after the credit reaches $512/$203, an alternate phase-out range where the credit is phased out more slowly until the credit reaches zero. For 2020, CalEITC credits are phased-out completely at qualified income levels of $30,001 for all taxpayers. The chart also shows the credit structure of the combined CalEITC and YCTC.

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.

In addition to the reporting requirements for CalEITC, the FTB is also required to provide a written report on the YCTC, which includes the following:

1. The number of tax returns claiming the credit.
2. The number of qualifying children represented on tax returns claiming the credit.
3. The average credit amount on tax returns claiming the credit.

Data

The information presented in sections 1 through 4 is based on tax year 2020 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 2020 as part of the poverty analysis. At the end of process year 2021, a total of $869 million of the CalEITC was allowed on 4,306,048 returns and a total of $395 million of the YCTC was allowed on 423,927 returns. This total includes 4,145,953 returns allowing $842 million of CalEITC and 416,980 returns allowing $388 million of YCTC for tax year 2020. The remaining CalEITC returns processed during 2021 were for late filed 2015, 2016, 2017, 2018, 2019 returns. For the YCTC, the remaining returns processed during 2021 were for late filed 2019 returns.

1) Returns Claiming the CalEITC and YCTC

At the end of process year 2021, a total of $842 million of the CalEITC was allowed on 4,145,953 tax year 2020 returns. Of these returns 992,473 returns claimed at least $1 in self-employment income and received $240 million in credit. This is a significant increase from the amount reported at the end of the 2019 tax year when $720 million was allowed on 3,746,371 returns. This increase was expected due to taxpayers with ITINs being allowed to claim the credit.

A total of $388 million of the YCTC was allowed on 416,980 tax year 2020 returns.

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

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 6.51 million individuals represented on the 4,145,953 returns where the CalEITC was allowed for tax year 2020, including nearly 1.91 million dependents.

There were 498,935 qualifying young children and a total of 710,584 CalEITC qualifying children on returns allowed the YCTC.

3) The Average CalEITC and YCTC amounts

For tax year 2020 returns where the credit was allowed, the average CalEITC amount was $203. This is 6 percent higher than in tax year 2019. Approximately 81 percent of taxpayers receiving CalEITC fall in the range of the phase-out. Taxpayers in this range receive an average credit of $175.

The average YCTC amount was $931. This is a 3 percent increase from tax year 2019.

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 2019 credit table phase-in/phase-out income ranges given the number of qualified children:

- Zero qualified children: Phase-in = $1 to $3,922, Phase-out = 3,922 to $30,000.
- One qualified child: Phase-in = $1 to $5,890, Phase-out = $5,890 to $30,000.
- Two or more qualified children: Phase-in = $1 to $8,268, Phase-out = $8,268 to $30,000.

Table 1 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 3.24 million returns with no CalEITC qualified children, 121,000 claimed exemptions for dependents that did not qualify for CalEITC purposes.

Table 1: Tax Year 2020 Distribution of CalEITC Credit Amounts by Qualified Child

CalEITC Qualified Children	Returns	Total Allowed (Millions)	AVG
No Qualified Children	3,108,134	$325,159,148	$105
1 Qualified Children	586,107	$220,989,214	$377
2 Qualified Children	308,043	$194,590,277	$632
3 Qualified Children	143,669	$101,108,508	$704
Total	4,145,953	$841,847,147	$203

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

Table 2 shows that over 3.11 million returns with no qualified children received the credit. For this group, $325.2 million in total credits were allowed with an average credit amount of $105.

Table 2: Tax Year 2020 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 $3,922)	588,799	$66,041,910	$112
Expansion Phase-Out (up to $30,000)	2,519,335	$259,117,238	$103
Total	3,108,134	$325,159,148	$105

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

Table 3 presents CalEITC data for returns with one qualified child.

Table 3: Tax Year 2020 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 $5,890)	108,208	$68,267,534	$631
Expansion Phase-Out (up to $30,000)	477,899	$152,721,680	$320
Total	586,107	$220,989,214	$377

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

Table 4 and table 5 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 $632 for those with two qualifying children and $704 for those with three qualified children.

Table 4: Tax Year 2020 Phase-in/Phase-out Ranges with Two Qualified Children

Qualified Income (credit table levels)	Returns	Total Allowed (Millions)	AVG
Phase-In (up to $8,268)	72,990	$79,444,883	$1,088
Expansion Phase-Out (up to $30,000)	235,053	$115,145,394	$490
Total	308,043	$194,590,277	$632

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

Table 5: Tax Year 2020 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 $8,268)	33,719	$42,408,685	$1,258
Expansion Phase-Out (up to $30,000)	109,950	$58,699,823	$534
Total	143,669	$101,108,508	$704

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 2020, 11 percent of CalEITC returns had two or three qualifying children. These returns were awarded 35 percent ($295.7million) of the $842 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 noncash 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. Table 6 displays the official federal poverty thresholds for 2020.

Table 6: Federal Poverty Thresholds for 2020 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):	13,171									
Under age 65...................................	13,465	13,465								
Aged 65 and older..........................	12,413	12,413								
Two people:	16,733									
Householder under age 65...........	17,413	17,331	17,839							
Householder aged 65 and older..	15,659	15,644	17,771							
Three people.....................................	20,591	20,244	20,832	20,852						
Four people..	26,496	26,695	27,131	26,246	26,338					
Five people..	31,417	32,193	32,661	31,661	30,887	30,414				
Six people..	35,499	37,027	37,174	36,408	35,674	34,582	33,935			
Seven people......................................	40,406	42,605	42,871	41,954	41,314	40,124	38,734	37,210		
Eight people.......................................	44,755	47,650	48,071	47,205	46,447	45,371	44,006	42,585	42,224	
Nine people or more.........................	53,905	57,319	57,597	56,831	56,188	55,132	53,679	52,366	52,040	50,035

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 2020 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 2021 original return data where the CalEITC was allowed. The reason for using process year instead of tax year is to include everyone who received CalEITC benefits in 2021 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 2020 American Community Survey, Public Use Microdata Set. The FTB is in conversations with the California Department of Social Services and Department of Health Care Services to improve the methodology used in this section.

Table 7: 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	$115	$748	$771	$1,416
Married Filing Jointly	$44	$370	$338	$733

*Includes individuals receiving no public assistance
Source: Census Bureau 2020 American Community Survey

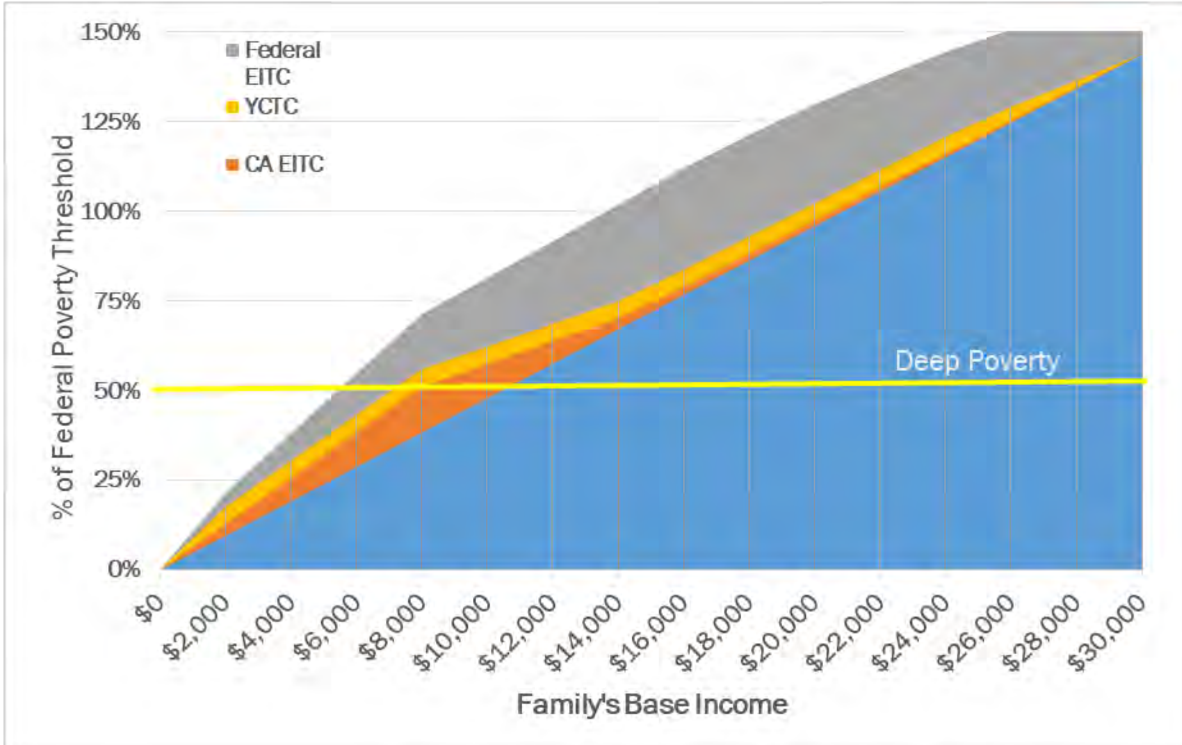
The FTB staff conducted a sensitivity analysis based on other assumptions about the amount of public assistance received by this population and concluded that the results presented here on the number of Californians lifted out of deep poverty is likely to be reasonable.

Another minor limitation in the data available to the FTB is in the definition of a family unit. The poverty thresholds reported in table 6 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 6, 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 substantially impact the 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 2 provides a visual example of the 2020 deep poverty income scale.

Figure 2: 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 (figure 2) shows the range of effects that the CalEITC, YCTC 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 table 6, this family's poverty income threshold is $20,852 in 2019. Deep poverty status for this family would occur if income is below $10,426, or half of the poverty level. In this example, the addition of the CalEITC to base incomes between $7,783 and $10,426 would result in the family being lifted out of deep poverty. At a base income of $7,782, the CalEITC is $2,644 for process year 2021. Adding this CalEITC amount to base income brings the family's total income to $10,427 and above deep poverty. If the YCTC is included in this analysis, the family's income could be as low as $7,038 and the combination of the two credits would lift them 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 $6,000 and $10,426, 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 $6,000, the CalEITC is $2,032 and the federal EITC $2,410 for process year 2020. Adding these EITC amounts to base income brings the family's total income to $10,442 and above deep poverty. If the YCTC is included in this analysis, the family's income could be as low as $5,412 and the combination of the three credits would lift them 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 table 8. Of the 4,306,048 returns which were allowed the CalEITC, 820,000 families and 1,1308,000 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, 48,000 families and 112,000 individuals are lifted above deep poverty.

Table 8: 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)	820	2,288		1,308	
Base Income + CA EITC	772	2,336	48	1,196	112
Base Income + CA EITC + YCTC	760	2,348	60	1,158	150
Base Income + CA EITC + YCTC + Fed EITC	684	2,424	136	957	351

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 YCTC amounts are added to base income. 60,000 of the 820,000 families who were in deep poverty are lifted above deep poverty income levels. The combination of the CalEITC and the federal EITC lifts over 150,000 individuals out of deep poverty compared to a family's base income without either EITC program. In the final analysis without public assistance payments, the CalEITC, YCTC and Federal EIC are added to base income. 136,000 of the 820,000 families in deep poverty are lifted above the deep poverty line. The combination of the three credits lifts 351,000 individuals out of deep poverty.

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 2020 (see table 7). 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 is provided in table 9.

Table 9: 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)	820	2,288		1,308	
Base Income (with Public Assistance)	786	2,322	34	1,225	83
Base Income (w/PA) + CA EITC	736	2,372	50	1,106	119
Base Income (w/PA) + CA EITC + YCTC	725	2,383	61	1,072	153
Base Income (w/PA) + CA EITC + YCTC + Fed EITC	660	2,448	126	905	320

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 1,308,000 to 1,225,000. The number of families in deep poverty drops from 820,000 to 786,000. In this simulation, the CalEITC lifts 50,000 families and 119,000 individuals out of deep poverty. The combination of CalEITC and YCTC lifts 61,000 families and 153,000 individuals out of deep poverty and the combination of the three credits lifts 126,000 families and 320,000 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) Unemployment Income and In-Home Supportive Services Workloads

On March 11, 2021, the American Rescue Plan Act of 2021 was signed in to law, effective for the 2020 tax year. One of the provisions in the law excluded up to $10,200 ($20,400 for married filing jointly) of unemployment income from federal AGI. Because the CalEITC credit amount is determined in part by the taxpayer's federal AGI (if the taxpayer's federal AGI is greater than their earned income), the new exclusion resulted in CalEITC being incorrect for taxpayers who filed their 2020 returns prior to the passage of this law. FTB took a two pronged approach to ensure taxpayers received the amount of credit they were entitled to under the new law.

First, FTB identified 659,345 taxpayers who claimed CalEITC on their returns, had unemployment income and had filed before passage of the law. FTB took the initiative to use the information provided on their tax returns to proactively increase their CalEITC, in accordance with the new law. YCTC was not impacted for these taxpayers because the YCTC is based entirely on the taxpayer's earned income. Ultimately, FTB issued 502,283 taxpayers an additional $99,297,863 in CalEITC. These taxpayers received an additional $198 of CalEITC on average. The remaining 157,062 who claimed CalEITC and had unemployment income did not have their CalEITC adjusted because FTB determined their credit was greater using their earned income than it would have been using the adjusted federal AGI.

Second, FTB identified an additional 350,972 taxpayers who did not initially file a form 3514 with their tax return because their federal AGI was greater than $30,000. With the exclusion of their unemployment income, their federal AGI was less than $30,000 and they may have been eligible for CalEITC and YCTC. Because FTB does not have the ability to determine the amount of CalEITC or YCTC for taxpayers who do not file a form 3514, FTB mailed outreach letters informing them that due to the American Rescue Plan Act of 2021, they may be eligible for CalEITC and YCTC. Instead of requiring these taxpayers to file an amended return, an exception was created allowing them to complete a form 3514 and mail it back to FTB. As of January 26, 2022, 8,049 taxpayers responded to FTB's outreach. Of these 8,049, 6,350 were determined to be eligible for CalEITC and were awarded $914,947. Additionally, 1,593 also qualified for the YCTC and received $1,497,591 of YCTC. FTB will continue accepting mail correspondence related to this outreach effort until May 1, 2022

In addition to FTB's work on unemployment income, FTB also conducted outreach to taxpayers with in-home supportive services (IHSS) income. The 2021 precedential Office of Tax Appeals decision in the Appeal of Akhtar found that IHSS income received by a caregiver living with the care recipient could be considered earned income for EITC purposes. As a result of the ruling, FTB identified and mailed outreach letters to 50,600 individuals who had IHSS income, notifying them that they may be eligible for CalEITC and YCTC. Unfortunately, as of the writing of this report the results from that effort are not yet available.

Appendix A: Tax Year 2020 CalEITC Distribution by County

County	Allowed Count	% of Total	Allowed Amount	% of Total
ALAMEDA	124,456	3	23,032,033	2.74
ALPINE	105	0.0	21,634	0.00
AMADOR	2,685	0.06	500,545	0.06
BUTTE	22,224	0.54	4,379,433	0.52
CALAVERAS	3,607	0.09	730,046	0.09
COLUSA	2,506	0.06	514,490	0.06
CONTRA COSTA	83,153	2.01	16,193,126	1.92
DEL NORTE	2,296	0.06	577,470	0.07
EL DORADO	14,111	0.34	2,388,863	0.28
FRESNO	130,673	3.15	31,846,289	3.78
GLENN	3,301	0.08	711,663	0.08
HUMBOLDT	15,530	0.37	2,838,994	0.34
IMPERIAL	29,515	0.71	8,077,583	0.96
INYO	1,669	0.04	345,005	0.04
KERN	113,020	2.73	29,154,177	3.46
KINGS	15,159	0.37	3,963,129	0.47
LAKE	6,476	0.16	1,514,300	0.18
LASSEN	1,918	0.05	405,225	0.05
LOS ANGELES	1,205,120	29.07	240,591,326	28.58
MADERA	19,378	0.47	5,007,875	0.59
MARIN	13,967	0.34	2,512,288	0.3
MARIPOSA	1,397	0.03	292,368	0.03
MENDOCINO	9,494	0.23	2,072,915	0.25
MERCED	35,286	0.85	8,810,433	1.05
MODOC	723	0.02	162,561	0.02

County	Allowed Count	% of Total	Allowed Amount	% of Total
MONO	1,340	0.03	196,215	0.02
MONTEREY	48,760	1.18	10,978,182	1.3
NAPA	10,694	0.26	1,818,418	0.22
NEVADA	8,384	0.2	1,526,768	0.18
ORANGE	323,928	7.81	58,475,319	6.95
OTHER	57,961	1.4	7,778,831	0.92
PLACER	26,971	0.65	4,482,892	0.53
PLUMAS	1,559	0.04	362,822	0.04
RIVERSIDE	278,306	6.71	59,540,469	7.07
SACRAMENTO	161,580	3.9	34,367,643	4.08
SAN BENITO	6,029	0.15	1,191,481	0.14
SAN BERNARDINO	269,401	6.5	59,579,110	7.08
SAN DIEGO	323,676	7.81	61,421,403	7.3
SAN FRANCISCO	61,609	1.49	10,590,043	1.26
SAN JOAQUIN	83,648	2.02	18,843,185	2.24
SAN LUIS OBISPO	23,355	0.56	4,028,994	0.48
SAN MATEO	42,922	1.04	7,111,807	0.84
SANTA BARBARA	45,439	1.1	8,849,542	1.05
SANTA CLARA	127,132	3.07	22,727,483	2.7
SANTA CRUZ	26,333	0.64	5,074,177	0.6
SHASTA	18,680	0.45	3,840,553	0.46
SIERRA	203	0.0	31,521	0.0
SISKIYOU	4,404	0.11	970,070	0.12
SOLANO	38,932	0.94	7,420,658	0.88
SONOMA	39,410	0.95	6,815,580	0.81
STANISLAUS	62,785	1.51	14,358,278	1.71
SUTTER	10,892	0.26	2,463,504	0.29

County	Allowed Count	% of Total	Allowed Amount	% of Total
TEHAMA	5,868	0.14	1,440,587	0.17
TRINITY	1,072	0.03	229,182	0.03
TULARE	62,875	1.52	16,800,148	2
TUOLUMNE	4,455	0.11	840,750	0.1
VENTURA	81,757	1.97	15,415,619	1.83
YOLO	19,561	0.47	3,648,395	0.43
YUBA	8,263	0.2	1,983,747	0.24
Total	4,145,953	$100.0	$841,847,147	100