

OCTOBER 13, 2022

The state and future of cash-based financial stability strategies in California

Memo prepared by Economic Security Project and GRACE/End Child Poverty for the Bay Area Early Childhood Funders

INTRODUCTION

Advocates of cash-based financial stability strategies have made significant strides forward for low- and middle-income Californians – and all Americans – over recent years. Expansions to the federal Child Tax Credit and Earned Income Tax Credit, improvements to cash supports in California, and the launch of 100 guaranteed income pilots across the country have all put financial security within reach for millions more families. In the year ahead, we’re looking to build on those foundations by making these supports more robust and accessible.

CALIFORNIA LEADS

In California, advocates and policymakers have made the strategic choice to target the lowest-income families and young children in our anti-poverty policies. We do this because we understand the importance of targeted, upstream policy interventions that do the most good for the people that need them.

We and other advocates of cash-based financial stability strategies have worked to ensure that these values are reflected in California’s policies, including: unique approach to our CalEITC and Young Child Tax Credit (YCTC), which breaks from the federal EITC structure and provides credits only to the lowest-income families (earning under \$30,000); the complete removal of an earnings requirement from the YCTC, which is now available to every low-income caregiver of young children, including those with no earnings at all; the recent Golden State Stimulus, which dedicated cash for immigrant families left out of federal relief programs; and even in the recent Better for Families Rebate, which provides the largest credits for low- and middle-income families and families with dependents.

Expanded federal Child Tax Credit produced a historic drop in poverty

*In 2021, for the first time, the federal government provided a generous, fully refundable, monthly advance Child Tax Credit with no work requirements. This meant that **27 million children** – including nearly half of Black and Latinx children – who were previously excluded from the previous credit because of earnings requirements, were eligible for the full, larger credit of \$3,000 per child or \$3,600 per child under 6. This led to a **historic – nearly 50% – drop in child poverty**, resulting in the lowest child poverty rates on record – even while families struggled to recover from the pandemic and ensuing recession. Despite this unprecedented success, Congress allowed the expanded Child Tax Credit to expire in December 2021.*

Advocates, including ESP, are [still pushing](#) for an expansion of the Child Tax Credit in a year-end tax extender deal.

RECENT CASH POLICY WINS

Expanding poverty-reducing tax credits

Every year in California, poverty-reducing tax credits put [\\$1.2 billion](#) back into the pockets of 4 million low- and middle-income California families, helping parents put food on the table, ensuring workers get to and from jobs, and helping all low-income Californians keep the lights on. In the past year, cash advocates across California helped strengthen these critical programs by:

- Eliminating the income requirement for the YCTC – a boon to approximately 100,000 families with no earnings. The YCTC amount will also be tied to inflation going forward, so it keeps up with rising costs.
- Doubling the state’s investment in free tax preparation, – helping thousands of low-income households get their CalEITC and YCTC.
- Expanding CalEITC to include a new Former Foster Youth Tax Credit, a \$20 million investment that will provide a fully refundable tax credit of up to \$1,000 to an estimated 20,000 current and former foster youth.
- Protecting poverty-reducing tax credits from debt interception by the government.

HOPE Accounts, California’s first baby bonds

Child trust accounts, or “baby bonds,” provide guaranteed access to seed money when a child turns 18, which they can spend on education, career-building, or other basic needs like housing and transportation. These accounts are a critical step to increasing wealth-building among young adults from low-income families and narrowing the persistent racial wealth gap. The new [HOPE Accounts](#) – which represent the largest baby bond investment in the U.S. – will invest \$100 million now, plus \$15 million each year, in trust accounts for over 32,000 children in long-term foster care and children in low-income families who lost a primary caregiver to COVID-19.

Guaranteed Income Pilot Program

The California Department of Social Services has launched the Guaranteed Income Pilot Program, a \$35 million investment over five years, to provide unconditional regular cash payments to support basic needs of two targeted populations: pregnant people and former foster youth. The Department will choose organizations or government agencies to administer pilots across the state.

Better for Families Rebate

Throughout the fall, most individuals and families in California will receive a one-time cash payment between \$200 and \$1,050 – depending on their income and family makeup. Families and individuals with lower incomes will get the largest payments, and those with dependents will get an extra \$200 to \$350.

Improvements to the CalWorks program

The most recent budget enacted a guaranteed full pass-through of child support for children and families formerly on CalWORKS, and increased CalWORKS grants by 21%, increasing the average CalWORKS grant from \$717 to \$868 per month.

Guaranteed Income Turns 100

*In just a few short years, guaranteed income has changed **from an idea to a movement** for economic freedom and stability.*

*Today, there are **100 guaranteed income pilots in 30 states** serving 38,000 people.*

THE OPPORTUNITIES AHEAD

Minimum credit for CalEITC

The typical 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 goal of poverty-reducing credits. With a minimum credit value – available to all households under a certain income limit, including no earnings – eligibility determination and credit calculation is simpler and more of the lowest-income people benefit. Establishing a minimum credit of \$255 would increase benefits for the 3.3 million – or 76% of – current CalEITC recipients whose credit is less than \$200.

Guaranteed income for targeted populations

Recent efforts to expand cash supports for specific populations include a bill to provide a guaranteed income for [homeless youth](#) transitioning to college and an effort to expand eligibility for guaranteed income pilots to [farmworkers displaced by drought](#). Advocates are dedicated to continuing to push for bills like these that recognize the unique challenges that communities face and the power of cash to help them meet those challenges head-on.

Benefits access and equity

Without equitable administration and full uptake, tax credits like the CalEITC and YCTC don't fulfill their promises – of cutting poverty, of reducing racial inequities, and of improving the lives of the Californians most in need. Yet thousands of California families miss out on these credits 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.

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 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.

Some promising innovations include:

- Allowing for self-attestation and FTB verification of YCTC eligibility for no-earnings households;
- Establishing automatic or categorical eligibility for tax credits based on enrollment in other social service programs;
- Paying the credits on a monthly basis;
- Using IRS data to proactively identify and contact likely eligible households;
- Expanding the state's own data-sharing consents and capabilities among state agencies to identify eligible households, and even automatically calculate and pay credits to a large percentage of them;
- Enhancing the current business process of other social services so to include questions to determine eligibility for tax credits in encounters for other social services with overlapping populations; and
- Streamlining poverty-reducing tax credits into two simple credits – a CalEITC to support workers (independent of children) and a new Child Allowance to support dependents.