



Assembly Bill 398: California Earned Income Tax Credit Minimum

SUMMARY

Assembly Bill (AB) 398 would establish a minimum California Earned Income Tax Credit (CalEITC) of \$300, increasing its value for recipients and encouraging more eligible Californians to file taxes.

BACKGROUND

Under current law, the amount of the credit is calculated as a percentage of the eligible individual's earned income. It is gradually reduced (phased out) when the individual's income exceeds a certain threshold. This also includes alternative calculation methods under specific circumstances. For taxable years beginning on or after January 1, 2020, and until the taxable year in which the minimum wage reaches \$15 per hour, the Franchise Tax Board is required to recalculate the phase-out percentage for eligible individuals. As a result, the calculated credit amount for a taxpayer with an earned income of \$30,000 will be adjusted to zero.

According to the California Budget & Policy Center, nearly all recipients of the CalEITC received less than \$300 in tax year 2023. Specifically, 81% of recipients received under \$300, 64% receiving less than \$200, and 33% receiving less than \$100. For filers without dependents, the maximum CalEITC credit does not cover the average cost of tax preparation services, estimated to be \$363 for individuals with wage income in 2019.

In 2023, approximately 1.7 million Californians (53% of this population) who received the CalEITC and filed their taxes using a Social Security Number (SSN) opted for a paid commercial tax preparer. Similarly, among those who received the CalEITC and filed with an Individual Taxpayer Identification Number (ITIN), 204,040 (87%) also utilized a commercial preparer. For many of these individuals, the costs associated with commercial tax preparation services exceeded the amounts they received from the CalEITC.

PROBLEM

As of 2024, the maximum tax credit available for California filers without dependents is a modest \$285. This figure represents a stark limitation for many individuals striving to make ends meet. More alarmingly, the median credit for these filers is a mere \$123. Such minimal tax credits are particularly

disconcerting, given that many CalEITC recipients do not qualify for the federal Earned Income Tax Credit, leaving them with even less financial support.

The current minimum credit of just \$1 discourages many eligible individuals from filing taxes. In an environment of rising inflation and increasing costs, such minimal credit offers little financial relief. This situation highlights the urgent need for policy reforms that provide substantial financial assistance to those in need.

SOLUTION

AB 398 seeks to improve access to the CalEITC by raising the minimum credit threshold to \$300 which will encourage eligible filers to apply for the credit, enhance their economic security, boost household incomes, and support local economic growth.

In addition, this uniform minimum credit will streamline outreach efforts and allow transparent information about CalEITC. A more standardized credit rate could simplify the claiming process and enable automated payments.

SUPPORT

Golden State Opportunity – Co-sponsor
GRACE-End Child Poverty California – Co-Sponsor
United Ways of California – Co-sponsor
California Association of Food Banks
California Catholic Conference
Community Action Partnership of Kern
Compass Family Services
Courage California
Economic Security California Action
Friends Committee on Legislation of California
GLIDE
John Burton Advocates for Youth
Prosper CA Coalition (formally CalEITC Coalition)
San Diego for Every Child
Sigma Beta Xi (SBX) Youth & Family Services
United Way Fresno & Madera Counties
Western Center on Law and Poverty