



# County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

SACHI A. HAMAI  
Chief Executive Officer

May 20, 2019

Board of Supervisors  
HILDA L. SOLIS  
First District

MARK RIDLEY-THOMAS  
Second District

SHEILA KUEHL  
Third District

JANICE HAHN  
Fourth District

KATHRYN BARGER  
Fifth District

To: Supervisor Janice Hahn, Chair  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Kathryn Barger

From: Sachi A. Hamai  
Chief Executive Officer

## **MOTION TO SEND FIVE-SIGNATURE LETTERS SUPPORTING THE GOVERNOR'S PLAN TO EXPAND CALIFORNIA EARNED INCOME TAX CREDIT (EITC) FUNDING (ITEM NO. 2, AGENDA OF MAY 21, 2019)**

Item No. 2 on the May 21, 2019 agenda as revised on the supplemental agenda, is a motion by Supervisors Kuehl and Solis recommending that, among other provisions related to the implementation of the County's Center for Financial Empowerment, the Board of Supervisors send a five-signature letter to the Los Angeles County Legislative Delegation, expressing support of Governor Newsom's plan to expand California Earned Income Tax Credit (CalEITC) funding, and direct the County's Legislative Advocates to support legislative proposals that expand EITC (Earned Income Tax Credit) eligibility and increased funding.

**Approval of this directive in the motion is consistent with existing Board-approved policy.**

### **Background**

The California Earned Income Tax Credit is a refundable state tax credit, modeled after the Federal EITC. The CalEITC was established by former Governor Jerry Brown and the California State Legislature as part of the passage of the 2015-2016 State Budget. According to the Legislative Analyst's Office (LAO), the CalEITC established in 2015 focused on filers with income within the federal phase-in range to strengthen the incentive to enter the workforce and provide the greatest benefits to the lowest-income workers. The LAO reports that for tax year 2015, approximately 385,000 families benefited from CalEITC refunds in the amount of \$200.0 million.

In the subsequent 2017-2018 State Budget, the CalEITC was expanded to allow eligibility for additional working families and individuals with low incomes. Following this expansion, EITC claims were increased. According to the LAO, in tax year 2017 over 1.4 million taxpayers received nearly \$400.0 million in CalEITC refunds.

### **Governor's Earned Income Tax Credit Proposal**

The Governor's May Revision proposal would significantly expand the State's EITC and rename it as the CalEITC, a cost-of-living refund. The credit amount would be increased from \$500.00 to \$1,000.00 for every family that qualifies for the credit and has at least one child under the age of six. This increase is expected to triple the amount of credits provided from \$400.0 million to approximately \$1.2 billion and be available to an estimated three million households. The maximum eligible earned income would be increased to \$30,000 to enable those working up to full-time at the 2022 State minimum wage of \$15.00 per hour to be eligible for the credit. The structure would be changed to allow for a more gradual phase out of the credit.

This proposal also includes \$18.7 million for the Franchise Tax Board to develop and administer a program to give CalEITC recipients the option to receive a portion of their EITC in monthly advance payments rather than as lump sum at the end of the year when taxes are filed. To pay for this program, the Administration proposes a number of tax conformity provisions, including limitations on employer deductibility of certain fringe benefits, that mainly impact business income. The revenue estimates for the conformity changes are expected to generate \$200.0 million in FY 2018-19, \$1.7 billion in FY 2019-20, and \$1.4 billion annually on an ongoing basis.

The Governor's Earned Income Tax Credit Proposal was heard and held open by the Assembly Budget Subcommittee No.4 on State Administration on May 14, 2019, and the Senate Budget and Fiscal Review Subcommittee No. 4 on State Administration and General Government on April 11, 2019.

The Assembly and Senate Budget Subcommittees will continue to meet to hear and vote on budget proposals that were held open through Friday, May 24, 2019, before proposals are taken up for consideration by the Senate Budget and Fiscal Review and Assembly Budget Committee ahead of the Budget Conference Committee on June 3, 2019.

### **County Impact**

The Department of Consumer and Business Affairs and its Center for Financial Empowerment (CFE) report that Governor Newsom's plan to expand CalEITC would put needed money back into the pockets of low-income individuals and families. If enacted, the Governor's plan would earn up to \$2,879 for families and individuals working at or below the full-time minimum wage threshold. The Governor's plan aligns with the CFE's

Each Supervisor  
May 20, 2019  
Page 3

mission to coordinate and align cross-sector efforts to build economic stability and household wealth for low to moderate income county residents. The CFE also supports the Governor's plan to deliver the tax credit through monthly payments delivered in smaller increments, as opposed to a lump sum once a year.

According to the Department of Consumer and Business Affairs and its Center for Financial Empowerment, the proposed monthly payments would allow low-income residents to establish more financial stability throughout the year as opposed to trying to pay off debt when they receive the lump sum. The CFE further reports that Governor Newsom's proposal will raise the household income threshold to over \$30,000 above the previous threshold of \$22,000, allowing more County residents to qualify for CalEITC. The CFE indicates that the Governor's plan is consistent with the County's goals to promote financial stability among its residents and to facilitate local economic development.

### **Conclusion**

The County's Federal Legislative Agenda includes policy to support tax proposals which reward work by low-income persons, such as through increasing or expanding eligibility for the Earned Income Tax Credit. **Therefore, approval of the directive in this motion is consistent with existing Board-approved policy.**

SAH:JJ:SA  
KS:dr

c: Executive Office, Board of Supervisors  
County Counsel