Build a dignified and effective social safety net that recognizes housing as a basic human need.

Address benefits cliffs and provide flexible rental assistance to low-income renters across the state.

Scale of Impact: In California, 44 percent of the population (17 million people) are renters, and over half of those pay more than 30 percent of their income on rent.[1] Providing substantial rental assistance in the form of a refundable Renter's Tax Credit could increase housing stability for 249,000 households in the region, as well as millions more across the state. An expanded state Earned Income Tax Credit (CalEITC) would impact at least 6.51 million low-income Californians (based on those who claimed the credit in recent tax years).[2]

Background

Public benefits are widely used by ELI households in the Bay Area: Nearly 40 percent currently receive CalFresh and roughly 15 percent receive Social Security Income. These public benefit programs provide a critical income floor for many people with extremely low incomes, as well as necessary support for moving out of poverty. **The safety net should be easy to access, responsive, and sufficient to meet people's needs, but today it fails ELI households in two significant ways.**

First, the safety net we have today is largely uncoordinated, administered by multiple agencies with different eligibility criteria and conflicting rules; and most benefits have very low eligibility cut-offs.[3] This leads to a systemic failure known as "benefits cliffs," where a slight increase in income makes recipients ineligible for public assistance, causing an overall *reduction* of a household's net resources. Similarly, a "benefits plateau" is a related effect where an increase in income results in the loss of certain benefits that ultimately leaves a household no better off.[4]

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1 Monica Davalos et al., California Budget and Policy Center, *California's 17 Million Renters Face Housing Instability and Inequity Before and After COVID-19*, 2021. Accessed at: https://calbudgetcenter.org/app/uploads/2021/01/IB-Renters-Remediated.pdf

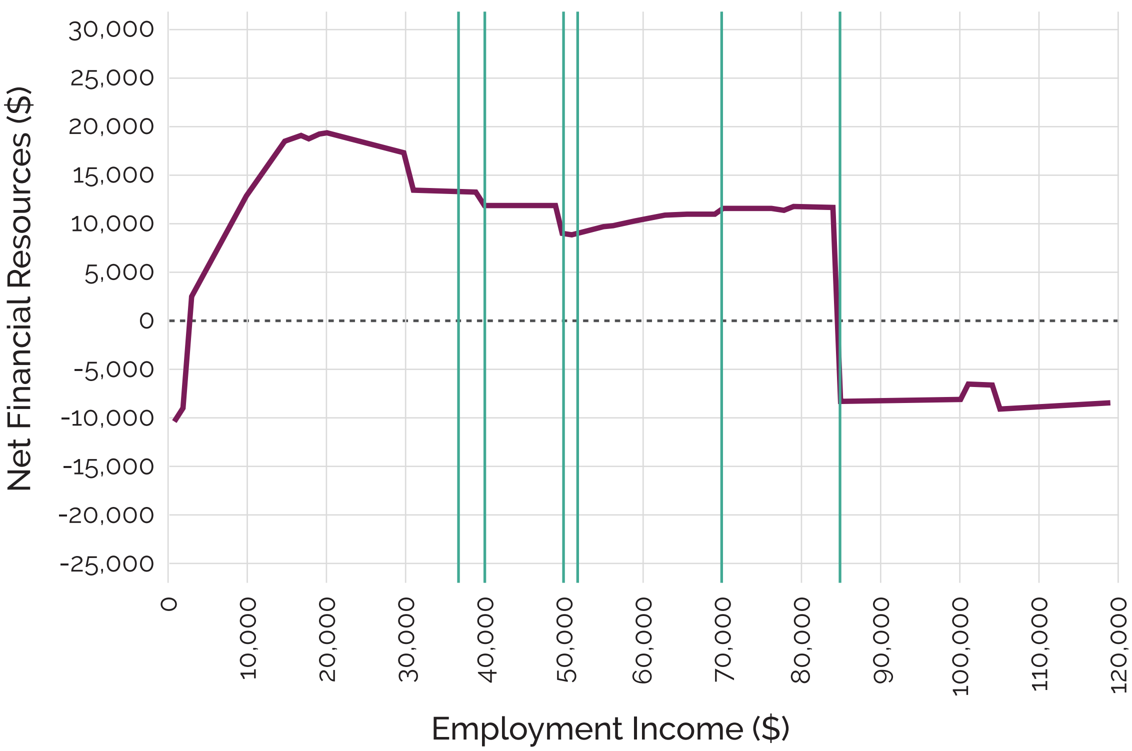
2 Franchise Tax Board, *California Earned Income Tax Credit and Young Child Tax Credit Report*, 2022. Accessed at: https://www.ftb.ca.gov/about-ftb/data-reports-plans/California-Earned-Income-Tax-Credit-and-Young-Child-Tax-credit-Report.pdf

3 Most public benefit programs are based on the official poverty measure, or the Federal Poverty Line (FPL), which was established in the 1960's. The FPL is based on the federal government's "Thrifty Food Plan" which estimates the amount of money a family needs to meet basic nutrition needs. The FPL has not been adjusted since it was established (aside from accounting for inflation) and many consider it an inadequate measure.

4 Cheyda Arhamsadr, *Casting a Wider Safety Net: Mitigating Benefits Cliffs for People with Extremely Low Incomes in the Bay Area*, 2021.

Benefits cliffs and plateaus disincentivize saving and career advancement, as households need to decide between increasing their income or receiving critical support from public benefit programs. Overall, they work against efforts to increase economic mobility for people with extremely low incomes—who remain in or near poverty to avoid cliffs in support. Figure 1 shows the total household resources of a family of four in Alameda County as one parent navigates a series of promotions—increasing their income but losing eligibility for a benefit such that their *overall* household resources fall dramatically or stagnate for several years.

Benefits Cliffs For an Alameda County Family of Four



Simulation showing the effect that increasing employment income has on total household resources for a family of four in Alameda County. The x-axis represents increases in employment income as the working adult takes promotions; the y-axis represents the household's total resources (including employment income and public benefits). Each blue line represents a loss in eligibility for a public benefit program.

Source: Federal Reserve Bank of Atlanta.

Second, scaled housing assistance is glaringly absent from California's safety net. Most ELI households are renting in the private market without any subsidy, and more than 80 percent of renter households are cost burdened (the average household pays 76 percent of their income on rent).[5] The federally funded Section 8 Housing Choice Voucher program is the primary program to provide rental assistance to low-income households, but at its current funding levels it reaches only a quarter of eligible tenants in the Bay Area.[6] Otherwise, housing assistance is either a patchwork of time-limited and small-scale programs, or emergency rental

5 Sara Kimberlin, California Budget & Policy Center, *Cost of Living Gaps and Public Supports for Bay Area ELI Households*, 2022.

6 Carolina Reid, The Terner Center for Housing Innovation, *On the Edge of Homelessness: The Vulnerability of Extremely Low-Income Households in the Bay Area,* 2021.

assistance provided to people who are in crisis. **Although housing is a universal human need, the state has never provided housing assistance at the scale necessary to serve all the Californians who would benefit from it.**

People of color in the Bay Area are more likely to experience economic insecurity, and more likely to work in low-wage occupations where a small increase in income threatens their benefits. People of color are also more likely to rent and to be cost-burdened than their white neighbors.[7] By focusing on benefits cliffs and rental assistance, this Big Move would help close those racialized disparities. **See the full report for more on how systemic racism has impacted who experiences housing and economic insecurity in our region and how the Big Moves would help repair that injustice.**

A refundable tax credit for low-income renters could help to balance against the multiple national and statewide tax benefits that disproportionately benefit white, higher income homeowners. Under California's Proposition 13, white homeowners get annual property tax breaks that are more than 80 percent higher on average than Black homeowners, and more than twice the tax break Latinx homeowners receive.[8] With higher incomes and homeownership rates, white households disproportionately benefit from the federal and state mortgage interest deduction (MID). White households comprise 66 percent of the U.S. population yet received 71 percent of the estimated MID benefit in 2018. In contrast, while comprising 13 percent of the overall population, Black households received only 8 percent of the estimated MID benefit. Latino households constitute 14 percent of the U.S. population but received 10 percent of the tax benefit.[9] Expanding the renter's tax credit can potentially reduce the widening income inequality created by homeownership and mortgage tax credits.

Implementation Steps

This Big Move focuses on addressing two elements of a dignified and effective social safety net that are missing today:

1. **Address benefits cliffs that households face when a small increase in income leads to a dramatic loss of benefit support by expanding the California Earned Income Tax Credit (EITC).**
2. **Reimagine the California Renter's Tax Credit to provide a monthly housing subsidy to low-income renters at scale.**

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7 Carolina Reid, The Terner Center for Housing Innovation, *On the Edge of Homelessness: The Vulnerability of Extremely Low-Income Households in the Bay Area*, 2021.

8 Jeanne Kuang, CalMatters, *California's white households get bigger property tax breaks than Black, Latino homeowners under Prop 13, study says*, 2022.

9 Tatjana Meschede et al., National Low Income Housing Coalition, *Misdirected Housing Supports: Why the Mortgage Interest Deduction Unjustly Subsidizes High-Income Households and Expands Racial Disparities*, May 2021. Accessed at: https://nlihc.org/sites/default/files/NLIHC-IERE_MID-Report.pdf

1. Expand the California Earned Income Tax Credit (EITC) to address benefits cliffs

The California Earned Income Tax (CalEITC) is a refundable tax credit that provides cash assistance to millions of low-income working Californians. It could serve as a buffer against benefit cliffs because it isn't "counted" as income, thus reducing other benefits, and because unlike other programs, it is designed to increase, rather than decrease, as household incomes rise. **Unfortunately, households phase out of eligibility for the CalEITC right around the same time they also lose access to CalFresh.** A number of other critical supports like childcare and healthcare subsidies phase out at incomes even higher, when households aren't receiving any support. Were the CalEITC extended to support households at higher income levels, it could be a useful tool to ease the transition off of public benefits and encourage career advancement, which increases household income in the long-term.

State legislation could make several expansions to the existing CalEITC so that in addition to providing cash assistance, the CalEITC could function as a buffer against benefits cliffs. This could include:

- **Significantly raising the CalEITC credit amounts** to provide more meaningful support. Advocates have successfully won increases to the credit amounts over time; more recently, they have called for a higher maximum payment, particularly for CalEITC recipients without children, who currently can receive a maximum credit of just $255. While important progress has been made, these amounts are simply insufficient to blunt the negative consequences caused by benefits cliffs.
- **Increasing the income level** at which households can receive the maximum credit amounts (known as the "peak"). Doing so would mean that filers would receive the maximum credit at higher income levels, aligned with when they lose some of the most generous benefits.
- **Increasing the income eligibility cut-off.** While credit amounts taper off after a household's income has reached the "peak", they should still receive support at higher income levels to mitigate the loss of significant benefits like childcare and healthcare. The current income limit is $30,000, regardless of the number of qualifying children.

2. Reimagine the California Renter's Tax Credit to provide a monthly housing subsidy to low-income renters at scale

The current state Renter's Credit is a flat, non-refundable tax credit offered to low-income renters. **Single filers with income less than $43,533 receive just $60; joint filers with income less than $87,066 receive $120.** But it could be reimagined as a statewide rental assistance benefit for low income renters—which could ultimately be paid monthly.[10] Delivering rental assistance as a refundable tax credit is a more accessible option for renters, reduces administrative burden, can be scaled by making use of existing state infrastructure, and doesn't interfere with other public benefits a household might receive.[11]

Implementing this would require state legislation to make three major changes to the current credit:

- **Change the credit to be refundable,** so that assistance flows back to the filer if the amount of the credit is larger than their tax owed or if the renter has no income or an income below the threshold to require tax filing;
- **Significantly expand the credit amounts and make them adjustable based on household size.** At minimum, the credit should be expanded in line with SB 843 (Glazer 2022), which would have increased the credit amounts to $500 and $1,000, respectively, for single filers and joint filers;[12]
- **Distribute payments monthly,** so the credit is most effective at supporting monthly rental payments.

Importantly, in areas where the supply of housing is constrained, renters have few options and landlords have outsize power in setting rents. There is a danger that some landlords might raise rents commensurate with the amount they anticipate their tenants will receive in a tax credit—unless there is more supply of housing and more competition to stabilize prices. **This proposal must be paired with a significant increase in supply of housing, or the credit risks putting additional pressure on the market and raising rents.**

Implementation Roles

Actor	Role	Timeframe
State elected officials and staff	• Propose legislation to expand and reform the California Renter's Tax Credit • Propose legislation to expand the CalEITC	Long term (5+ years)
City and county elected officials and staff	• Simplify eligibility rules and recertification rules for local programs, like General Assistance	Short-term (1-2 years)
Philanthropy	• Provide financial support to community based organizations who assist with tax filing and benefit access	Ongoing

10 Federal law is unclear as to whether states have the authority to distribute their own tax credits on a monthly basis. However, renter's tax credit delivered in monthly installments would provide essential support in a way that coincides with monthly rental payments. Advocates are pursuing changes to federal law to allow for this.

11 This idea draws heavily on multiple tax credit proposals that have been made at the state and federal level, including the Center of Budget and Policy Priorities (2017), University of Southern California (2020) and the Terner Center for Housing Innovation (2016).

12 A rental assistance credit should be applied consistent with recent anti-rent gouging legislation to ensure that the refund to the renter isn't just then collected by a landlord who raises the rent a corresponding amount. Under AB 1482 which is effective January 1, 2020 to January 1, 2030, annual rent increases are limited to no more than 5% + local CPI (CPI = inflation rate), or 10% - whichever is lower.

Actor	Role	Timeframe
Everyone	• Build awareness of how benefit cliffs perpetuate poverty and decrease economic mobility for vulnerable community members • Support and advocate for legislation to expand the state Renter's Tax Credit • Support and advocate for legislation to expand the CalEITC	Long term (5+ years)

Supporting Actions

Federal advocacy to raise and ultimately eliminate asset limits for SSI recipients, building on the success of similar efforts for CalWORKs and Medical in California. Asset limits are another significant barrier to economic security that ELI households face because they restrict how much people can save.

Expand eligibility of public benefit programs so they reach more people, including undocumented and mixed status households.

Increase access to safety net benefits—including to those who don't file taxes regularly or those who are unaware of the support. This could include automatic enrollment and supporting organizations who run tax prep assistance and outreach programs.

Increase access to housing assistance by, for example, creating a single affordable housing application portal and requiring only one credit check for multiple applications.

Reform the federal rules around eligibility for housing choice vouchers to account for the high cost of housing in the Bay Area. In addition to needing housing assistance, many people face challenges in accessing the affordable housing options that do exist.

Increase transparency by advocating that the new state benefits portal, BenefitsCal, include a benefits calculator that shows the impact that changes in income may have on assistance.