California’s refundable tax credits – including the CalEITC, Young Child Tax Credit, and Former Foster Youth Tax Credit – increase economic well-being by putting more than $1 billion back into the pockets of millions of low-income Californians each year. They are also powerful tools for increasing racial equity in the state: 3 in 4 eligible Californians are people of color. While these programs are rightfully celebrated as among our state’s most effective tools to help people meet their basic needs, their impact could be deepened by paying out tax credits monthly, as they’re earned, instead of only once a year.

The consequences of income volatility are severe, particularly for low-income families and families of color

In California, 30% of households experience income volatility, and one in three Bay Area residents consistently run out of money before the end of each month, which makes it harder for families to pay bills, afford basics like groceries, or stay in their homes. Nationwide, income volatility disproportionately affects Black, Latinx, and families with low incomes, compounding the effects of institutional and systemic racism and further threatening the economic well-being of Californians of color.

Income volatility threatens housing security. California faces a severe affordability crisis: over 75% of extremely low-income households are paying more than half of their income on rent each month. Unexpected financial crises (like a medical bill or job loss) are among the most common causes of homelessness, and recent research has even pinpointed the sharp dips in earnings and increased payday loan inquiries that precede evictions. Homelessness prevention programs show that a cushion of even just a few hundred dollars a month can make the difference between staying housed or being evicted. That reliable monthly income can help households avoid evictions and their harmful effects, including less earnings and higher debt for years afterward.

Monthly payments reduce income shocks and increase economic security

Monthly payments help families keep up with regular expenses, like food, housing, and bills. In 2021, the federal government temporarily expanded the Child Tax Credit (CTC) and provided half of the credit as advance monthly payments over six months. Nearly 62 million children in 38 million families across the United States received financial relief, which was overwhelmingly used to pay for food, rent, child care, and other necessities for their children. Monthly CTC payments helped
families pay bills, including to prevent utility shutoffs and evictions or foreclosures. They also reduced food insufficiency among families with kids by 24%, and improvements were significant among Black and Latinx families, who experience the highest rates of food hardship.

**Monthly payments reduce vulnerability to risky financial products like payday loans.** Families that struggle with income volatility are more likely to turn to risky financial services like payday loans to get by and are more likely to fall into debt. Research shows that many taxpayers spend some of their annual credit on unpaid bills or other debt, but monthly payments can help families stay ahead throughout the year, cutting their reliance on risky financial products as a stopgap solution. CTC monthly payment recipients saw declines in credit card debt, and were 1.7 to 2 times more likely than non-eligible households to reduce reliance on payday loans, pawn shops, and even selling blood plasma. Providing tax credits as monthly payments can help address income shocks and be more responsive to families’ changing needs in real time.

**Monthly payments help tax credits cut monthly poverty more than if paid in a lump sum.** While the expansion of the federal CTC in 2021 drove an unprecedented 46% drop in child poverty, research from Columbia University shows monthly payments cut poverty by 30% more each month than the same amount made annually, because of their income stabilizing effects.

**AB 441 Policy Details**

AB 441 would authorize the Franchise Tax Board to provide advance monthly payments to tax filers who are eligible for $1,000 or greater in combined tax credits from the CalEITC, Young Child Tax Credit and Foster Youth Tax Credit. This bill will:

**Protect taxpayers and the state from overpayments**
- Advance monthly payments will be equal to 80% of the estimated total credit amount; the other 20% of the credits will be available upon tax filing

**Streamline the process for taxpayers**
- Payments will be paid by direct deposit where possible, or by check or debit card if not.
- Recipients will have the ability to opt out of payments and make any changes affecting their eligibility for the credits on myFTB at any time

**Protect taxpayers federal and state benefits**
- Advanced monthly payments will not be implemented until federal law is clear that monthly payments will not impact eligibility for federal benefits.
- Franchise Tax Board will request any federal agency waivers that are necessary to protect taxpayers’ federal means-tested benefits
- Monthly payment of tax credits will not be counted as regular income for the purpose of determining any means-tested state benefits.