HB 1526

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 1526 (Delegate Rosenberg)
Ways and Means

Earned Income Tax Credit - Calculation and Eligibility

This bill decouples the State earned income credit (EIC) and refundable earned income credit (REIC) from the eligibility and values specified under the federal EIC by (1) altering the value of the State EIC; (2) specifying that the credits may not be claimed under specified circumstances; and (3) specifying that individuals filing a joint return may disregard certain earned income or federal adjusted gross income (FAGI) under specified circumstances.

The bill takes effect July 1, 2014, and applies to tax year 2014 and beyond.

Fiscal Summary

State Effect: Potential significant decrease in State revenues beginning in FY 2015 due to additional State EIC claims. Potential significant increase in general fund expenditures beginning in FY 2015 due to implementation costs at the Comptroller's Office.

Local Effect: Montgomery County expenditures for its EIC program may be impacted beginning in FY 2016. Revenues are not affected.

Small Business Effect: None.

Analysis

Bill Summary: A qualified working individual is an individual who (1) is between the ages of 21 and 39 years old; (2) does not have a qualifying child; and (3) works at least 1,500 hours during the taxable year. A qualified spouse is an individual who (1) is married; (2) has at least one qualifying child; and (3) works at least 1,000 hours during the taxable year. A qualifying child is as defined under Section 32(C)(3) of the Internal Revenue Code.

The bill specifies that the value of the State EIC is equal to:

- 50% of the value of the federal EIC for an individual with one qualifying child if the individual is (1) a qualified spouse; (2) a qualified working individual; or (3) an individual with a qualifying child that is at least six years old;
- 75% of the value of the federal EIC for an individual with one qualifying child if the individual has a qualifying child between the ages of three years and five years old; or
- 100% of the value of the federal EIC for an individual with one qualifying child if the individual has a qualifying child aged two years old or younger.

The bill also specifies that in calculating the value of the State EIC or REIC, an individual filing a joint return may calculate the individual's FAGI or earned income without regard to a qualifying spouse's FAGI or earned income. A qualified spouse or qualified working individual with FAGI or earned income of 200% or greater than the federal poverty income guidelines may not claim the State EIC or REIC.

Current Law/Background: The State conforms to the eligibility and criteria under the federal EIC. An individual can claim a State EIC equal to 50% of the federal credit allowed. The amount of the credit cannot exceed the taxpayer's tax liability in that tax year. An individual who qualifies for the federal EIC can claim a refundable State EIC equal to 25% of the federal credit, minus any pre-credit State income tax liability. To the extent provided, a county refundable EIC is the amount by which five times the federal EIC multiplied by the county income tax rate exceeds the county income tax liability.

For more information on the State and federal EIC, please consult the fiscal and policy note for House Bill 198: http://mgaleg.maryland.gov/2014rs/fnotes/bil_0008/hb0198.pdf

A recent Brookings Institution proposal advocated raising the minimum wage and altering the benefits provided under the federal EIC. The bill proposes some of the changes included in this proposal. The proposal increased federal EIC benefits (1) for young adults (aged 21 years to 39 years) who do not have dependent children and work at least 1,500 hours; (2) married couples that include two workers as long as the lower-earning spouse works at least 1,000 hours per year; and (3) certain families with very young children. The proposal would also cut benefits to those with more than one child, those with older children, and childless workers over the age of 39 years old that work less than 1,500 hours per year. The Brookings Institution notes that the proposal would prioritize full-time work over part-time employment, young children over large families, and young single adults over older ones. Although the Brookings Institution analysis estimates that the proposal would be a no-cost proposal to decrease poverty, other analysts question the effects of increasing incentives for going from part-time to full-time employment while reducing the incentive to gain part-time employment, given weakness in the current labor market.

State Fiscal Effect: Under the current State EIC and REIC, eligibility and credit amounts are directly linked to the federal EIC. The bill will alter the calculation of the credit and provide for a separate spousal credit under certain circumstances beginning in tax year 2014. As a result, general fund revenues will decrease significantly beginning in fiscal 2015.

The Comptroller's Office processes returns and verifies eligibility based on whether the individuals qualify for the federal EIC and the amount claimed. About 270,600 tax returns claimed the State EIC in tax year 2012. The bill will decouple eligibility for the State credits from the amount that can be claimed under the federal credit. As a result, the Comptroller's Office will incur additional and potentially significant costs to verify credit claims beginning in fiscal 2015.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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