

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 719 (Senator Griffith, *et al.*)
 Budget and Taxation

Earned Income Tax Credit - Individuals Without Qualifying Children -
 Calculation and Refundability

This bill expands the State earned income tax credit that can be claimed by individuals without qualifying children by (1) increasing the percentage value of the credit and (2) making the credit fully refundable. **The bill takes effect July 1, 2020, and applies to tax year 2020 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$27.2 million in FY 2021 due to the expansion of the credit. Future year estimates reflect the estimated number of eligible individuals and projected increase in the credit value. General fund expenditures may increase in FY 2021 due to implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$27.2)	(\$28.0)	(\$28.8)	(\$29.7)	(\$30.7)
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$27.2)	(\$28.0)	(\$28.8)	(\$29.7)	(\$30.7)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Montgomery County expenditures for its earned income credit program may increase beginning in FY 2022. Revenues are not affected.

Small Business Effect: None.

Analysis

Bill Summary/Current Law:

Refundable Credit Percentage

Maryland offers a nonrefundable credit, which is equal to the lesser of 50% of the federal credit or the State income tax liability in the taxable year. If the nonrefundable credit reduces a taxpayer's liability to zero, the taxpayer is eligible to claim a refundable credit equal to 28% of the federal credit, minus any precredit State tax liability.

The bill increases, to 100%, the percentage of the federal credit that an individual without a qualifying child can claim. A taxpayer will claim this fully refundable credit instead of the nonrefundable and refundable State earned income credits provided under current law.

Credit Eligibility and Individuals without Qualifying Children

Except as discussed below, Maryland conforms to the federal eligibility standards – only those individuals who claim the federal earned income tax credit may claim the State credit. To be eligible in tax year 2019, a taxpayer must have earned income, investment income of \$3,600 or less, and a modified federal adjusted gross income of less than:

- \$50,162 (\$55,952 married filing jointly) with three or more qualifying children;
- \$46,703 (\$52,493 married filing jointly) with two qualifying children;
- \$41,094 (\$46,884 married filing jointly) with one qualifying child; and
- \$15,570 (\$21,370 married filing jointly) with no qualifying children.

Under federal law, eligibility for individuals without a qualifying child is limited to individuals who are between ages 25 and 64. Chapters 611 and 612 of 2018 expanded eligibility for the State credit that can be claimed by an individual without a qualifying child by eliminating the requirement that an individual must be at least 25 years of age.

Background:

Earned Income Credit

First enacted in 1975, the federal earned income tax credit is a refundable tax credit offered to low-income workers. The federal credit has expanded significantly over time and is now one of the largest federal antipoverty programs. Almost every state generally determines

its credit as a percentage of the total federal credit claimed by the individual, and most states conform to federal eligibility standards.

Maryland is the only state with both a nonrefundable and refundable credit. Some taxpayers, generally those with higher tax liabilities, claim only the nonrefundable credit, others will claim both credits, while a third group will claim only the refundable credit. In addition, low-income taxpayers may also claim a State and local poverty level credit. The refundable credit was established in 1998, and legislation enhancing the value of the State refundable credit was enacted in 2001, 2007, and 2014. The 2007 legislation also extended eligibility of the refundable credit to individuals without children. The Budget Reconciliation and Financing Act of 2015 limits eligibility for the State and local earned income tax credits to State residents only beginning with tax year 2015.

Department of Legislative Services Evaluation

Pursuant to the Tax Credit Evaluation Act of 2012, the Department of Legislative Services (DLS) evaluated the State earned income credit and made several recommendations in a report issued in November 2014. Based on the information and analysis provided in the report, DLS recommended several changes to improve the tax credit. The evaluation found that while the federal and State earned income tax credits have positive effects on reducing poverty and the credits do not proportionately benefit childless workers, the potential fiscal costs associated with expanding the credit by decoupling from the federal credit may outweigh the benefits that would otherwise accrue. Accordingly, DLS recommended that the General Assembly continue to monitor actions concerning the federal earned income tax credit and that the Comptroller provide an estimate of the potential costs associated with decoupling from the federal credit.

The DLS evaluation of the earned income credit can be found [here](#).

Claims by Family Structure and Income

Exhibit 1 shows that in 2012 a similar number of taxpayers with one qualified child and two or more qualified children claimed the credit, 36% and 40%, respectively. However, filers with two or more qualified children receive 60% of all credits, while those with one child receive 36% of the credits, reflecting the more generous credit for larger families. While a significant number of claimants (23.0%) had no qualifying children, they claimed only 4.0% of the total credits claimed. This is consistent with the structure of the earned income tax credit, which provides more significant benefits to those with qualifying children. The maximum federal benefit for childless taxpayers was \$475 in 2012, which is less than one-tenth the size of the maximum credit for households with two qualifying children.

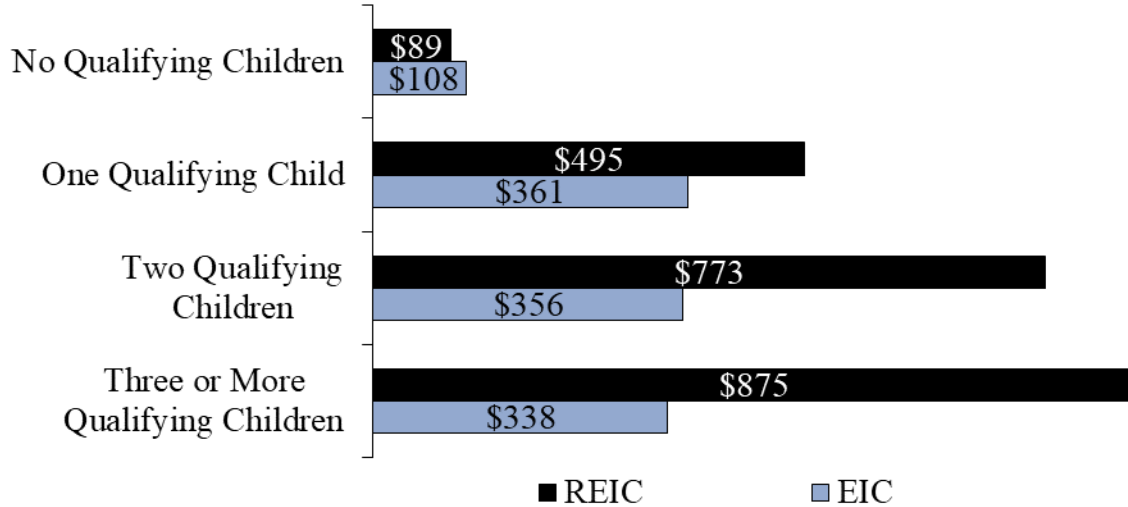
Exhibit 1
Claimants by Number of Qualifying Children
Tax Year 2012

Number of Qualifying Children	Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
None	95,592	23.0%	\$9,779,600	4.0%	\$102
One	150,010	36.1%	87,928,900	36.0%	586
Two	110,636	26.6%	93,667,400	38.3%	847
Three or More	59,166	14.2%	52,913,800	21.7%	894
Total	415,404	100.0%	\$244,289,700	100.0%	\$588

Source: Comptroller's Office; Department of Legislative Services

Exhibit 2 shows the average State refundable and nonrefundable credit by number of qualifying children. The refundable credit provided the largest benefit relative to other credits for taxpayers with children, as this benefit increases with the number of children. Unlike the refundable credit, the average nonrefundable and local earned income credit claimed did not increase with the number of children. These credits are nonrefundable and are limited by tax liabilities. For taxpayers with multiple children, the average refundable credit was double the amount of the nonrefundable credit claimed. In 2012, the average refund for taxpayers with no qualifying children was \$89, substantially less than the \$875 refund received by taxpayers with three or more children.

Exhibit 2
Average Credits by Number of Qualifying Children
Tax Year 2012



EIC: earned income credit
 REIC: refundable earned income credit

Source: Comptroller's Office; Department of Legislative Services

State Revenues: The bill expands the State credit for individuals without qualifying children beginning in tax year 2020. As a result, general fund revenues decrease by \$27.2 million in fiscal 2021 and by \$30.7 million in fiscal 2025, as shown in **Exhibit 3**. This estimate is based on existing data on the State credit, federal earned income credit fiscal estimates, and the current economic forecast.

Exhibit 3
State Revenue Impacts
Fiscal 2021-2025
(\$ in Millions)

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
State Revenues	(\$27.2)	(\$28.0)	(\$28.8)	(\$29.7)	(\$30.7)

State Expenditures: General fund expenditures may increase in fiscal 2021 at the Comptroller's Office in order to provide for the calculation of a separate earned income credit for individuals without qualifying children.

Local Expenditures: Montgomery County has a local grant program based on the State's refundable credit. Payments for this county grant are made in the fiscal year following the fiscal year in which the returns are filed. Accordingly, Montgomery County expenditures may increase in fiscal 2022 and beyond.

Additional Information

Prior Introductions: SB 262 of 2019 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 585, received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: HB 680 (Delegate Wilkins, *et al.*) - Ways and Means.

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

Fiscal Note History: First Reader - February 25, 2020
rh/jrb

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