



JANUARY 26, 2021

Providing Additional Support to EITC Recipients Would Benefit Many Families But Exclude Some

Letter of Information, Senate Bill 496

Submitted to the Senate Budget and Taxation Committee

The Earned Income Tax Credit (EITC) is one of the most effective anti-poverty tools we have. The refundable federal tax credit along with Maryland’s matching credit helps lift thousands of Marylanders out of poverty each year. Decades of research link the reduction in poverty because of the EITC and the federal Child Tax Credit to better health and educational outcomes for children, among other benefits. Using the administrative framework of the EITC to deliver economic assistance can help thousands of Marylanders afford necessities right away and bring them long-term benefits. Supplementing this approach with policy steps to reach people current left out by the EITC would generate even better benefits.

Additional economic assistance payments would also benefit Maryland businesses. Because EITC recipients have very low incomes, they are most likely to spend these payments on basic necessities like food, utilities or car repairs at businesses in their community. Every dollar invested in the EITC generates \$1.23 of economic activity, according to one estimate.¹

There are several benefits to using the EITC as a mechanism for delivering additional economic assistance to low-income Marylanders, as proposed in SB 496:

- People with incomes in the EITC range likely include many people who work in service industry jobs who may have experienced layoffs or reduced work hours because of the pandemic. This group also likely includes essential workers like cooks, home care workers, and truck and delivery drivers,² many of whom take home paltry wages despite keeping our economy going during the coronavirus pandemic.
- Providing a consistent payment amount, rather than matching the EITC, ensures that people with very little income who would get a smaller EITC benefit still get a meaningful amount of economic relief.
- Using both the 2019 and 2020 tax years ensures that people who lost work during 2020 and may be newly eligible for the EITC also qualify for some additional economic relief.
- Using a well-defined group of taxpayers and making payments automatic reduces administrative burdens and ensures as many people as possible receive assistance.

However, the current structure of the EITC does not reach all low-income people who could potentially benefit from additional assistance. The Maryland Center on Economic Policy has historically supported various measures to expand the state EITC and make it more effective.

- The economic assistance would leave out many immigrant households. Households where some or all filers use an Individual Taxpayer Identification Number (ITIN) instead of a Social Security number are generally not eligible for the EITC. Immigrant households have already been excluded from most federal relief programs and are more likely to have experienced economic hardship because of the pandemic. If the EITC is used as the mechanism, the legislation should be amended to include a complementary assistance program for low-income families who aren't eligible for the EITC.
- In addition, the low upper income limits of EITC eligibility for workers not claiming children as dependents on their taxes (about \$16,000) means that many people who are getting by on very low wages do not receive the EITC, and therefore would not receive the additional economic assistance payment.
- About 20 percent of Marylanders who are eligible for the EITC in a given year don't receive it, for a variety of reasons. This will likely be even more of a challenge in a year with many newly eligible EITC recipients. Additional outreach to people who are potentially eligible for the EITC and additional economic assistance payments would be critical, and could also have long-term benefits in increasing EITC awareness and uptake in Maryland.
- Marylanders who are not able to work for pay in a given year because of a health condition, care responsibilities, or other reasons are not eligible for the EITC. Extending assistance payments to people with \$0 income will help them afford necessities and strengthen sales at local businesses further.

In the long term, Maryland's EITC would be more effective if it were expanded to reach those who are currently left out or receive a very minimal credit. This includes taking steps to increase the value of the credit and expand eligibility for workers who don't claim dependents on their taxes. In addition, Maryland would benefit from following Colorado and California, which in 2020 expanded their state EITCs to include immigrant households.

Equity Impact Analysis: Senate Bill 496

Bill summary

This analysis is focused on the portion of Senate Bill 496 that provides additional cash assistance to recipients of Maryland's Earned Income Tax Credit. The bill also includes business tax credits that are not considered in this analysis.

Background

The refundable portion of Maryland's EITC is currently 28% of the federal credit. For people who qualify for the EITC and aren't claiming dependent children on their taxes, the maximum federal credit is \$538. The maximum credit for a family with three or more children is \$6,600.

Equity Implications

- Providing additional payments to EITC recipients would make our tax system more equitable. The lowest-income Marylanders now pay about 9.8 percent of their income in state and local taxes – a greater share of their income than the wealthiest 1 percent of Marylanders (those earning more than \$534,800 per year).³
- Due to various structural barriers to opportunity, Black and Latinx workers are far more likely than white workers to earn poverty-level wages and are therefore more likely to qualify for the EITC. While state and federal EITCs serve a larger number of white households than households in any other racial or ethnic group, they serve a larger proportion of people of color.
- EITCs also have a disproportionate impact in reducing poverty rates among households of color.⁴
- Senate Bill 496 would provide a flat payment to workers eligible for the EITC rather than a percentage match on the tax credit. This approach enhances equity because it provides greater benefits to workers with very low incomes.
- As currently structured, the EITC leaves out provides only minimal benefits to many Marylanders who face economic roadblocks built through inequitable policy choices, such as many immigrant households and people who cannot work for pay because of a disability. Assistance payments based solely on the EITC will likewise bring them little or no benefit.

Impact

Providing additional assistance to EITC recipients would likely **improve racial and economic equity** in Maryland.

¹ Mark Zandi, "An Analysis of the Obama Jobs Plan." Moody's Analytics, Sept. 9, 2011.

<https://www.economy.com/dismal/analysis/free/224641>

² Chuck Marr, "President-Elect's Plan Includes Vital EITC Increase for Adults Not Raising Children," Center on Budget and Policy Priorities, 2021, <https://www.cbpp.org/blog/president-elects-plan-includes-vital-eitc-increase-for-adults-not-raising-children>

³ Institute on Taxation and Economic Policy, "Who Pays? 6th Edition, State-by-state data," Oct. 17, 2018,

<https://itep.org/whopays-map/>

⁴ Michael Leachman et. al. "Advancing Racial Equity With State Tax Policy," Center on Budget and Policy Priorities, Nov. 15, 2018.

<https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy>

Estimated Combined District Level Impacts of House Bills 584 and 680

District	Current Law		Post-Expansion		
	EITC Returns No Children	Total MD EITC No Children	EITC Returns No Children	Total MD EITC No Children	
				Post-Expansion	Change
MD 01A	1,300	\$114,000	2,500	\$679,000	\$565,000
MD 01B	1,300	\$113,000	2,500	\$669,000	\$557,000
MD 01C	1,300	\$113,000	2,400	\$672,000	\$559,000
MD 02A	2,500	\$223,000	4,700	\$1.3 million	\$1.1 million
MD 02B	1,400	\$126,000	2,700	\$746,000	\$620,000
MD 03A	2,100	\$188,000	4,000	\$1.1 million	\$927,000
MD 03B	800	\$70,000	1,500	\$415,000	\$345,000
MD 04	2,400	\$209,000	4,500	\$1.2 million	\$1.0 million
MD 05	2,600	\$231,000	5,100	\$1.4 million	\$1.1 million
MD 06	4,100	\$378,000	7,800	\$2.2 million	\$1.9 million
MD 07	2,600	\$237,000	4,900	\$1.4 million	\$1.2 million
MD 08	3,500	\$321,000	6,600	\$1.9 million	\$1.6 million
MD 09A	1,200	\$106,000	2,300	\$629,000	\$523,000
MD 09B	700	\$61,000	1,300	\$363,000	\$302,000
MD 10	3,300	\$307,000	6,400	\$1.8 million	\$1.5 million
MD 11	2,500	\$225,000	4,700	\$1.3 million	\$1.1 million
MD 12	3,000	\$273,000	5,800	\$1.6 million	\$1.3 million
MD 13	2,600	\$236,000	5,000	\$1.4 million	\$1.2 million
MD 14	2,900	\$279,000	5,600	\$1.7 million	\$1.4 million
MD 15	2,300	\$209,000	4,300	\$1.2 million	\$1.0 million
MD 16	1,500	\$140,000	2,800	\$830,000	\$690,000
MD 17	3,200	\$293,000	6,100	\$1.7 million	\$1.4 million
MD 18	3,000	\$279,000	5,700	\$1.7 million	\$1.4 million
MD 19	3,700	\$353,000	7,100	\$2.1 million	\$1.7 million
MD 20	4,400	\$418,000	8,400	\$2.5 million	\$2.1 million
MD 21	3,300	\$308,000	6,300	\$1.8 million	\$1.5 million
MD 22	4,200	\$381,000	8,000	\$2.3 million	\$1.9 million
MD 23A	1,000	\$90,000	1,900	\$532,000	\$442,000
MD 23B	1,600	\$142,000	3,000	\$846,000	\$704,000
MD 24	3,300	\$296,000	6,300	\$1.8 million	\$1.5 million
MD 25	3,000	\$266,000	5,700	\$1.6 million	\$1.3 million
MD 26	3,100	\$286,000	6,000	\$1.7 million	\$1.4 million
MD 27A	900	\$76,000	1,700	\$454,000	\$378,000
MD 27B	700	\$62,000	1,400	\$370,000	\$308,000
MD 27C	900	\$78,000	1,700	\$464,000	\$386,000
MD 28	2,700	\$242,000	5,100	\$1.4 million	\$1.2 million
MD 29A	700	\$58,000	1,200	\$346,000	\$288,000
MD 29B	800	\$76,000	1,600	\$451,000	\$375,000

MD 29C	700	\$66,000	1,400	\$394,000	\$328,000
MD 30A	1,700	\$154,000	3,200	\$913,000	\$759,000
MD 30B	700	\$64,000	1,400	\$382,000	\$317,000
MD 31A	1,300	\$121,000	2,500	\$719,000	\$598,000
MD 31B	1,800	\$164,000	3,500	\$973,000	\$809,000
MD 32	3,100	\$280,000	5,900	\$1.7 million	\$1.4 million
MD 33	2,000	\$177,000	3,800	\$1.1 million	\$877,000
MD 34A	2,100	\$183,000	4,000	\$1.1 million	\$904,000
MD 34B	800	\$65,000	1,500	\$389,000	\$323,000
MD 35A	1,000	\$88,000	1,800	\$523,000	\$435,000
MD 35B	1,700	\$145,000	3,200	\$861,000	\$716,000
MD 36	2,700	\$244,000	5,300	\$1.4 million	\$1.2 million
MD 37A	1,500	\$137,000	2,900	\$816,000	\$679,000
MD 37B	2,400	\$222,000	4,600	\$1.3 million	\$1.1 million
MD 38A	1,400	\$126,000	2,700	\$749,000	\$623,000
MD 38B	1,700	\$150,000	3,300	\$890,000	\$740,000
MD 38C	1,400	\$118,000	2,600	\$701,000	\$583,000
MD 39	3,500	\$321,000	6,700	\$1.9 million	\$1.6 million
MD 40	4,200	\$381,000	8,100	\$2.3 million	\$1.9 million
MD 41	3,300	\$300,000	6,400	\$1.8 million	\$1.5 million
MD 42A	900	\$80,000	1,700	\$475,000	\$395,000
MD 42B	1,600	\$146,000	3,100	\$867,000	\$721,000
MD 43	3,700	\$322,000	7,000	\$1.9 million	\$1.6 million
MD 44A	1,400	\$127,000	2,700	\$757,000	\$629,000
MD 44B	2,200	\$203,000	4,200	\$1.2 million	\$1.0 million
MD 45	4,100	\$364,000	7,800	\$2.2 million	\$1.8 million
MD 46	3,700	\$337,000	7,100	\$2.0 million	\$1.7 million
MD 47A	2,900	\$264,000	5,500	\$1.6 million	\$1.3 million
MD 47B	1,400	\$126,000	2,600	\$746,000	\$620,000
Statewide	147,000	\$13.3 million	281,300	\$79.2 million	\$65.9 million