



FEBRUARY 29, 2024

# Ensuring Marylanders Receive Much-Needed Tax Credits Will Benefit Families and our Economy

## Position Statement Supporting Senate Bill 1105

*Given before the Senate Budget and Taxation Committee*

There are a range of federal and state tax credits aimed at helping working families make ends meet. These include the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), federal Child and Dependent Care Credit, and Maryland's Senior Tax Credit. While these credits help boost incomes for hundreds of thousands of Marylanders each year, there are still many who don't receive the benefits even though they are eligible. **The Maryland Center on Economic Policy supports Senate Bill 1105 because it will expand outreach and use data matching technology to help ensure Marylanders receive the tax credits they are eligible for.**

For example, nearly 359,000 Maryland families received an income boost from the federal EITC last year but about one in four who are eligible don't receive it, according to IRS data.<sup>1</sup> The number of eligible Marylanders who aren't receiving the credit has gradually increased over the last decade, suggesting that the current outreach and education aren't enough. People with very low incomes often don't earn enough to be required to file a tax return every year and may not be aware that they are missing out on refundable credits.

While similar data are not publicly available for other types of credits, it is likely that many Marylanders are missing out on other types of income-boosting credits as well. Over the last few years, state policymakers have expanded eligibility for the state EITC and created a state CTC and Senior Tax Credit, meaning many taxpayers are now eligible for new credits that they have not been eligible for in the past.

It is important to ensure all eligible Marylanders are receiving the EITC and CTC because they can have such a powerful impact on people's lives. Nationwide nearly 11 million people are lifted out of poverty each year because of the federal EITC and CTC, with Maryland residents seeing even further benefits due to our state credits.<sup>2</sup> Research shows that reducing poverty through these tax credits, especially for children, has significant long-term benefits, such as experiencing better health, doing better in school, and earning higher incomes later in life. It is also good for our economy, as families living paycheck to paycheck are likely to spend their refunds on immediate needs like car repairs, clothing, or school supplies, which boosts sales at local businesses.

SB 1105 provides the Office of the Comptroller with additional resources and tools to raise awareness about tax credits and match data from other state agencies to help identify people who are likely eligible for certain

credits but have not claimed them. Expanding uptake of these valuable credits among people who are likely to be eligible would help increase economic security and access to opportunity.

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on Senate Bill 1105.**

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## Equity Impact Analysis: Senate Bill 1105

### *Bill summary*

Senate Bill 1105 provides the Office of the Comptroller with additional resources and tools to raise awareness about tax credits and match data from other state agencies to help identify people who are likely eligible for certain credits but have not claimed them. It permits data sharing agreements with other state agencies and outlines protections for personal data. It also creates a mandated appropriation of \$300,000 per year starting in fiscal year 2026 to fund a public awareness campaign.

### *Background*

About 27% of Marylanders who were eligible for the federal EITC did not claim it in 2020, the most recent year for which IRS data are available. Maryland's EITC participation rate has slightly declined, from nearly 80% in tax year 2011 to around 76% in tax years 2018 and 2019 and 73% in tax year 2020. Similar data are not publicly available for the federal Child Tax Credit or the state level credits. Maryland has taken positive steps to expand eligibility for the state EITC and create a modest state CTC in recent years, meaning there are some people who can receive the state credit but not the federal one. The state has also created other individual credits for older adults and retirees.

### *Equity Implications*

- 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 and Maryland's state CTC. While state and federal tax credits 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.<sup>3</sup>

### *Impact*

Senate Bill 1105 would likely **improve racial and economic equity** in Maryland.

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<sup>1</sup> IRS, EITC Participation Rates By State For Tax Years 2013 through 2020, <https://www.eitc.irs.gov/eitc-central/participation-rate-by-state/eitc-participation-rate-by-states>

<sup>2</sup> Center on Budget and Policy Priorities, "Policy Basics: The Child Tax Credit," 2022. <https://www.cbpp.org/research/policy-basics-the-child-tax-credit>

<sup>3</sup> 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>