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Increasing Reach of Working Family Tax Credits Will Benefit Maryland Families and our Economy

Position Statement Supporting House Bill 735

Given before the House Ways and Means Committee

The federal and state Earned Income Tax Credits (EITC) and Child Tax Credits (CTC) help hundreds of thousands of working Marylanders who struggle to get by due to low wages and also boost the economy. However, many Marylanders don't receive the benefits of these effective anti-poverty tools even though they are eligible. Maryland has taken a number of positive steps to expand uptake of the EITC, including funding tax preparation assistance programs, requiring businesses to notify their employees about the EITC, and sharing information through state agencies. However, recent federal actions are making it harder for the Office of the Comptroller to implement more effective policies for ensuring more eligible Marylanders receive the credit.

The Maryland Center on Economic Policy supports House Bill 735 because it will maintain Maryland's progress towards increasing uptake of the EITC while adapting to a changing federal landscape.

About 380,000 Maryland families received an income boost from the federal EITC last year.¹ However, about 18% to 25% of those who are eligible don't receive it each year, according to IRS data.² 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.

Legislation the General Assembly passed in 2022 required the Comptroller to use available data to proactively identify people who are likely eligible for the EITC but did not claim it and to provide them with a simple form to receive the credit. However, because of changing IRS policy, they do not currently have access to the necessary data to implement this program. HB 735 delays implementation deadlines until 2030, after which point new state tax systems are expected to make it feasible for the Comptroller to successfully implement the program.

In the meantime, HB 735 will create a process for evaluating current EITC outreach practices and exploring additional ways the state could strengthen outreach that don't rely on IRS data.

It is important to ensure all eligible Marylanders are receiving working family tax credits because it can have such a powerful impact on people's lives. Nationwide millions of 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.³ 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.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 735.

Equity Impact Analysis: House Bill 735

Bill summary

House Bill 735 delays implementation of the Maryland Earned Income Tax Credit Assistance Program for Low-Income Families and requires the Office of the Comptroller to conduct a study regarding the most effective strategies for outreach to taxpayers who are likely eligible for the EITC.

Background

About 18% of Marylanders who were eligible for the federal EITC did not claim it in 2022, the most recent year for which IRS data are available. Maryland's EITC participation rate has varied from year to year from more than 82% in tax year 2022 to as low as 73% in tax year 2020. Similar data are not available for the 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.

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.⁴

Impact

If it ultimately results in increased uptake of the EITC, House Bill 735 would likely **improve racial and economic equity** in Maryland.

¹ IRS, Statistics for Tax Returns with the Earned Income Tax Credit, 2024 returns processed in 2025, <https://www.irs.gov/tax-professionals/eitc-central/statistics-for-tax-returns-with-the-earned-income-tax-credit-eitc>

² IRS, EITC Participation Rates By State For Tax Years 2014 through 2022, <https://www.eitc.irs.gov/eitc-central/participation-rate-by-state/eitc-participation-rate-by-states>

³ Center on Budget and Policy Priorities, "Policy Basics: The Child Tax Credit," 2022. <https://www.cbpp.org/research/policy-basics-the-child-tax-credit>

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>