HB 608

Department of Legislative Services

Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 608 (Delegate Wilkins)
Ways and Means

Earned Income Tax Credit - Individuals Without Qualifying Children - Eligibility

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This bill enhances the State's earned income credit for individuals without a qualifying child by increasing the income threshold at which the credit begins to phase out. **The bill takes effect July 1, 2024, and applies to tax year 2024 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by an estimated $96.4 million in FY 2025; future years reflect projected growth in eligible tax credits. The Comptroller's Office can implement the bill's changes with existing budgeted resources.

($ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	($96.4)	($100.3)	($104.3)	($108.5)	($112.8)
Expenditure	0	0	0	0	0
Net Effect	($96.4)	($100.3)	($104.3)	($108.5)	($112.8)

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 supplement program may increase beginning in FY 2025, as discussed below. Local revenues are not affected.

Small Business Effect: None.

Analysis

Current Law/Bill Summary: Maryland's earned income credit offers both refundable and nonrefundable credits against the State income tax and a nonrefundable credit against the local income tax for low- to moderate-income resident taxpayers. The State nonrefundable credit is generally equal to 50% of the amount of an eligible taxpayer's federal earned income credit for the taxable year. A taxpayer for whom the State nonrefundable credit is less than the taxpayer's State income tax liability may also be eligible to claim the State and local poverty level credits.

Earned Income Credit for Individuals Without Qualifying Children

Legislation enacted in the 2018, 2021, and 2023 sessions expanded the State's earned income credit for individuals without qualifying children. Specifically:

- Chapters 611 and 612 of 2018 allowed individuals without qualifying children to claim the State and local earned income credits without regard to the federal minimum age requirement for childless claimants;
- for tax years 2020 through 2022, Chapter 39 of 2021 increased the value of the State refundable credit for individuals without qualifying children to 100% of the individual's federal earned income credit (minus any pre-credit State income tax liability), up to a maximum of $530;
- for tax years 2020 through 2022, Chapter 40 of 2021 generally expanded eligibility for Maryland's earned income credit to taxpayers who would be eligible for the federal earned income credit but for specified identification requirements; and
- Chapters 3 and 4 of 2023 permanently extended beyond tax year 2022 the temporary expansions to the earned income credit enacted in 2021 and eliminated the $530 limit on the value of the State refundable credit for individuals without qualifying children.

Thus, for tax year 2023 and beyond, an eligible individual without a qualifying child may claim a fully refundable State earned income credit in an amount equal to the allowable federal earned income credit, without limitation. The federal earned income credit for individuals without qualifying children is equal to 7.65% of an eligible taxpayer's earned income up to the "earned income amount" ($8,260 for tax year 2024), minus 7.65% of the taxpayer's earned income in excess of the "phaseout amount" ($10,330 for tax year 2024). The maximum value of the federal earned income credit for individuals without qualifying children is $632 for tax year 2024.

Under the bill, the State's earned income credit for individuals without qualifying children is further enhanced through an increase in the income threshold at which the credit begins to phase out. Specifically, beginning in tax year 2024, the value of the credit is calculated by substituting $19,160 (as adjusted for inflation beginning in tax year 2024, as specified) for the federal phaseout amount ($10,330 for tax year 2024).

State Revenues: General fund revenues decrease by an estimated $96.4 million in fiscal 2025 and $112.8 million in fiscal 2029 due to increases in the number and amount of credits claimed against the personal income tax. This estimate is based on an analysis of tax year 2022 claims for the existing State earned income credit for individuals without qualifying children, adjusted for the current economic forecast. The Comptroller's Office advises that, in tax year 2022, approximately 164,000 returns qualified for the State earned income credit for individuals without qualifying children, and an additional 171,000 returns may have been eligible for the credit were the bill's changes in effect for tax year 2022.

Local Expenditures: Montgomery County expenditures for the Working Families Income Supplement Program, which provides a match to county residents based on the amount of the State earned income credit, may increase beginning in fiscal 2025.

Additional Comments: The bill specifies that (1) the amount of the State earned income credit for individuals without qualifying children must be calculated by substituting $7,840 for the applicable federal earned income amount (consistent with the applicable earned income amount for tax year 2023) and $19,160 for the applicable federal phaseout amount and (2) beginning in tax year 2024, the Comptroller must increase these amounts in accordance with the cost-of-living adjustment (COLA) specified under the Internal Revenue Code (IRC) (on which the federal COLAs to the federal earned income and phaseout amounts are based) by substituting "calendar year 2023" for "calendar year 2016" in IRC § 1(f)(3)(B).

As written, due to the bill's reference to IRC § 1(f)(3)(B) and substitution of "calendar year 2023" for "calendar year 2016" in its application, the alterations to the earned income and phaseout amounts differ from the bill's intent. For purposes of this analysis, it is assumed that the bill applies as intended, which would be achieved by amending the IRC reference to be § 1(f)(3)(A) and substituting "calendar year 2022" for "calendar year 2016" in its application.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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km/jrb

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