

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 22

(Senator Madaleno)

Budget and Taxation

Ways and Means

Earned Income Tax Credit - Tax Year 2014 - Technical Correction

This emergency bill clarifies that taxpayers can claim a State refundable earned income credit equal to 25% of the federal earned income credit, minus any pre-credit State income tax liability, in tax year 2014.

Fiscal Summary

State Effect: None. The bill is intended to correct a technical error and clarifies legislative intent.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/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. Maryland and about half of all states and the District of Columbia offer a state earned income tax credit that supplements the federal credit. The fiscal impact of the Maryland earned income tax credit has expanded significantly over time, with approximately \$300 million in State and local earned income tax credits and refundable credits claimed in tax year 2012.

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 25% of the federal credit, minus any pre-credit State tax liability.

Chapter 389 of 2014 increased the State refundable credit value from 25% to 28% of the federal credit. This increase is phased in over four years, beginning with tax year 2015. The language in the final version of the legislation contained a technical error that inadvertently eliminated the value of the credit for tax year 2014. Based on consultation with several State agencies, the Comptroller's Office advises that it is currently administering the program under the intent of the legislation, which was to increase the credit beginning in tax year 2015.

DLS 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 draft report issued in November 2014. Based on the information and analysis provided in the report, DLS recommends several changes to improve the tax credit. These recommendations include (1) designating the Department of Human Resources to promote the credit and gather information regarding participation rates and the credit's effectiveness; (2) examining the feasibility of simplifying the administration and claiming of the State credit; (3) requiring the Office of the Comptroller to institute additional educational and outreach efforts to both taxpayers and tax preparers and to investigate improper payments and develop strategies to address those payments; (4) examining additional measures to limit the adverse effects of refund anticipation products on the effectiveness of the credit; and (5) providing additional funding for free tax preparation services in order to combat the erosion of credit funds by tax preparation costs.

The DLS evaluation of the enterprise zone tax credit can be found at:
http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/WEB-Draft-Earned-Income-Report.pdf.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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min/jrb

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