

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 912
Ways and Means

(Delegate Palakovich Carr, *et al.*)

Maryland Child Tax Credit

This bill creates a refundable credit against the State income tax equal to \$500 for each child who is a qualified dependent under Section 152 of the Internal Revenue Code and is either under the age of 6 years or is under the age of 17 years and has a disability. In order to qualify, a taxpayer must have a federal adjusted gross income of \$6,000 or less. The credit is reduced by the amount of any federal child tax credit claimed in the year. **The bill takes effect July 1, 2020, and applies to tax years 2020 through 2024. The bill terminates June 30, 2025.**

Fiscal Summary

State Effect: General fund revenues will decrease in FY 2021 through 2025 due to tax credits claimed against the personal income tax. General fund expenditures increase by \$56,000 in FY 2021 due to one-time implementation costs at the Comptroller's Office.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: For State income tax purposes, a taxpayer can claim an exemption for up to \$3,200 for each qualified dependent.

Under Section 152 of the Internal Revenue Code, a qualifying child or qualifying relative can be considered a dependent if certain conditions are met, including criteria related to age, support provided, limits on the income earned by the dependent, residence, and household membership.

In addition, several federal and State tax credits can be claimed for dependents as discussed below.

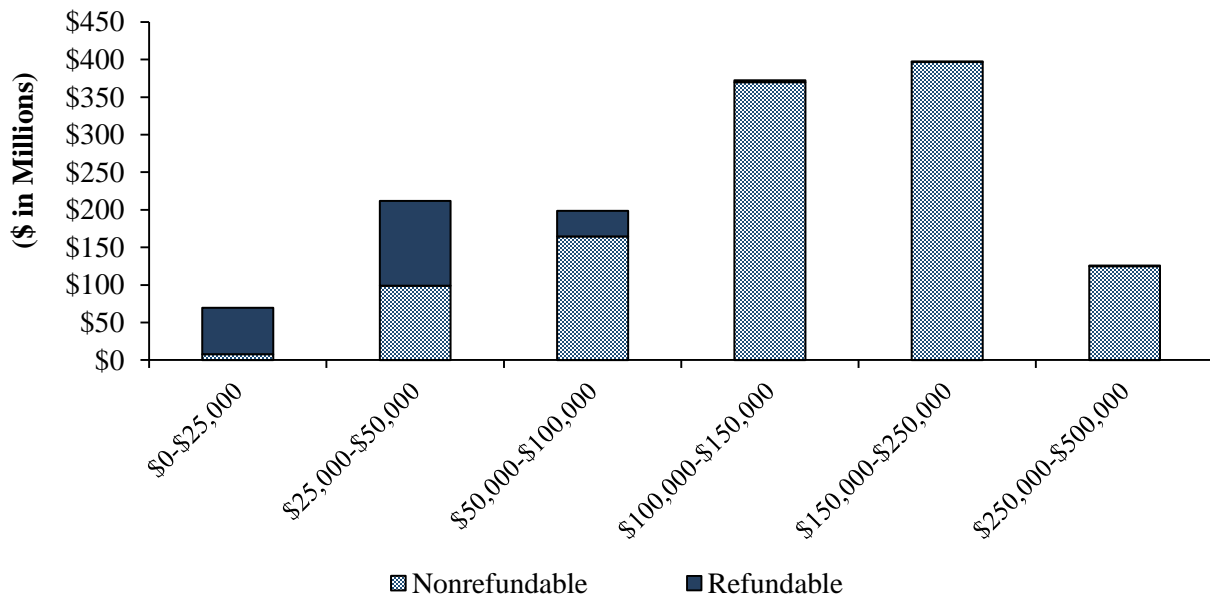
Background:

Federal Child Tax Credit

The federal Tax Cuts and Jobs Act of 2017 enacted significant changes to federal taxes including the personal income tax. The Act enhances the federal child tax credit by (1) increasing the value of the nonrefundable credit from \$1,000 to \$2,000 (the refundable credit increases from \$1,000 to \$1,400); (2) allowing more higher-income taxpayers to claim the credit by increasing the income thresholds at which the credit phases out (the credit will begin to phase out at \$200,000 (\$400,000 if married filing jointly)); and (3) establishing an additional tax credit of \$500 for dependents who are not qualifying children. Additionally, the Act requires that, in order to receive the full child tax credit, a taxpayer must include a Social Security number for each qualifying child. For a dependent that does not have the required Social Security number, an individual may claim a tax credit of up to \$500. These provisions apply to tax years 2018 through 2025.

In January 2018, the Comptroller's Office issued an analysis of the Act's impact on Maryland taxpayers and State and local revenues. The expansion of the federal child tax credit comprises most (\$1.5 billion) of the estimated decrease in federal taxes that will be paid by Maryland residents. As shown in **Exhibit 1**, taxpayers with federal adjusted gross income of between \$100,000 and \$250,000, who will comprise about one-quarter of all recipients, will claim most (\$766.0 million) of the increased benefit.

Exhibit 1
Total Increase in Federal Child Tax Credit by Federal Adjusted Gross Income



Federal, State, and Local Earned Income Credits

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 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 28% of the federal credit, minus any precredit State tax liability. The earned income credit is the largest State tax credit program, with approximately \$300 million in State and local earned income tax credits and refundable credits claimed in tax year 2012.

The structure of the earned income credit program provides more significant benefits to those with qualifying children. The maximum federal benefit for a household with two qualifying children is \$6,660 in 2020, compared to a maximum credit of \$538 for an individual without a qualifying child.

Federal Child and Dependent Care Tax Credit

The federal child and dependent care tax credit can be claimed by taxpayers who have earned income and have child and dependent care expenses for qualifying persons if the expenses are incurred to work or look for employment. A qualifying person is a child younger than age 13 who can be claimed as a dependent, a spouse who is incapable of self-care and lived with the taxpayer for more than one-half of the year, or other persons who are not able to care for one's self and meet specified criteria.

The maximum value of the credit is 35% of qualifying expenses subject to a maximum of \$1,050 for one qualifying person and \$2,100 for two or more qualifying persons. The credit decreases by 1% for each \$2,000 of gross income over \$15,000 until adjusted gross income reaches \$43,000. The credit is 20% for gross incomes of \$43,000 and above.

State Child and Dependent Care Tax Benefits

Taxpayers can claim a credit against the State income tax for qualified child and dependent care expenses. Chapter 432 of 2019 expanded the credit by increasing the incomes at which the credit phases out and by making the credit refundable for certain taxpayers.

State Revenues: Tax credits can be claimed in tax years 2020 through 2024. As a result, general fund revenues will decrease in fiscal 2021 through 2025. Based on the requirements of the bill and the amount of federal child tax credits claimed in tax year 2018, the Comptroller's Office estimates that general fund revenues will decrease by \$17.0 million annually in fiscal 2021 through 2025.

State Expenditures: The Comptroller's Office reports that it will incur a one-time general fund expenditure increase of \$56,000 in fiscal 2021 to add the tax credit to the personal income tax forms. This includes data processing changes to the income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 638 (Senator King) - Budget and Taxation.

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

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mm/jrb

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