

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 176
 Ways and Means

(Delegate Wilkins)

Earned Income Tax Credit - Individuals Without Qualifying Children -
 Calculation and Refundability

This bill expands the State earned income tax credit that can be claimed by individuals without qualifying children by (1) increasing the percentage value of the credit and (2) making the credit fully refundable. **The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$26.1 million in FY 2022 due to the expansion of the credit. Future year estimates reflect the estimated number of eligible individuals and projected increase in the credit value. General fund expenditures may increase in FY 2022 due to implementation costs at the Comptroller’s Office.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	(\$26.1)	(\$28.0)	(\$29.7)	(\$30.7)	(\$32.0)
GF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$26.1)	(\$28.0)	(\$29.7)	(\$30.7)	(\$32.0)

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 program may increase beginning in FY 2023. Revenues are not affected.

Small Business Effect: None.

Analysis

Bill Summary/Current Law:

Federal Earned Income Tax 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. Almost every state generally determines its credit as a percentage of the total federal credit claimed by the individual, and most states conform to federal eligibility standards.

Maryland Earned Income Credits

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 bill increases, to 100%, the percentage of the federal credit that an individual without a qualifying child can claim. A taxpayer will claim this fully refundable credit instead of the nonrefundable and refundable State earned income credits provided under current law.

Except as discussed below, Maryland conforms to the federal eligibility standards – only those individuals who claim the federal earned income tax credit may claim the State credit. To be eligible in tax year 2021, a taxpayer must have earned income, investment income of \$3,650 or less, and a modified federal adjusted gross income of less than:

- \$51,464 (\$57,414 married filing jointly) with three or more qualifying children;
- \$47,915 (\$53,865 married filing jointly) with two qualifying children;
- \$42,158 (\$48,108 married filing jointly) with one qualifying child; and
- \$15,980 (\$21,920 married filing jointly) with no qualifying children.

Under federal law, eligibility for individuals without a qualifying child is limited to individuals who are between ages 25 and 64. Chapters 611 and 612 of 2018 expanded eligibility for the State credit that can be claimed by an individual without a qualifying child by eliminating the requirement that an individual must be at least 25 years of age.

State Revenues: The bill expands the State earned income credit for individuals without qualifying children beginning in tax year 2021. As a result, general fund revenues decrease by \$26.1 million in fiscal 2022 and by \$32.0 million in fiscal 2026, as shown in **Exhibit 1**.

This estimate is based on existing data on the State credit, federal earned income credit fiscal estimates, and the current economic forecast.

Exhibit 1
State Revenue Impacts
Fiscal 2022-2026
(\$ in Millions)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State Revenues	(\$26.1)	(\$28.0)	(\$29.7)	(\$30.7)	(\$32.0)

State Expenditures: General fund expenditures may increase in fiscal 2022 at the Comptroller's Office in order to provide for the calculation of a separate earned income credit for individuals without qualifying children.

Local Expenditures: Montgomery County has a local grant program based on the State's refundable credit. Payments for this county grant are made in the fiscal year following the fiscal year in which the returns are filed. Accordingly, Montgomery County expenditures may increase beginning in fiscal 2023.

Additional Information

Prior Introductions: HB 680 of 2020 and HB 585 of 2019 received a hearing in the House Ways and Means Committee, but no further action was taken. The cross files, SB 719 of 2020 and SB 262 of 2019, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Designated Cross File: None.

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

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rh/jrb

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