

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 992 (Delegate Wilkins)
 Ways and Means

Income Tax - Earned Income Tax Credit - Alteration and Sunset Repeal

This bill makes permanent the temporary expansions of the State earned income credit enacted by Chapter 39 of 2021 the (Recovery for the Economy, Livelihoods, Industries, Entrepreneurs, and Families Act (RELIEF Act) and Chapter 40 of 2021. The bill also expands the credit that can be claimed by individuals without qualifying children by increasing the income thresholds at which the credit phases out and repealing the limitation on the maximum credit that can be claimed. **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$24.7 million in FY 2023 due to the additional tax credits claimed against the personal income tax. Future year estimates reflect the extension of current law provisions and the estimated number of eligible individuals and projected tax credit values. General fund expenditures increase by \$233,800 in FY 2023 for implementation costs at the Comptroller’s Office. Future year estimates reflect ongoing expenditures.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$24.7)	(\$182.2)	(\$190.3)	(\$194.3)	(\$201.0)
GF Expenditure	\$0.2	\$0.4	\$0.4	\$0.4	\$0.4
Net Effect	(\$24.9)	(\$182.6)	(\$190.7)	(\$194.7)	(\$201.4)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local income tax revenues will decrease by about \$7.5 million annually in FY 2024 through 2027. Montgomery County expenditures for its earned income credit program may increase beginning in FY 2024. Revenues are not affected.

Small Business Effect: None.

Analysis

Bill Summary:

Expansion of Credit for Individuals Without Qualifying Children

The bill expands eligibility for the credit that can be claimed by an individual without a qualifying child by increasing the credit income phase-out limits. These provisions apply beginning with tax year 2022.

RELIEF Act of 2021

Chapter 39 was emergency legislation enacted to provide income tax relief to certain taxpayers, economic impact payments of up to \$500 to certain taxpayers, and other forms of more immediate assistance to businesses and employers impacted by the COVID-19 pandemic. In tax years 2020 through 2022, the Act enhances the benefit of the State refundable earned income credit by generally increasing its value from 28% to 45% of the federal credit, minus any pre-credit State tax liability. In these same tax years, an individual without a qualifying child can claim a refundable credit equal to 100% of the federal credit, subject to a maximum credit of \$530.

The bill extends these provisions beginning with tax year 2023 and repeals beginning in tax year 2022 the limitation on the maximum value of the tax credit that can be claimed by an individual without a qualifying child.

Chapter 40 of 2021

Chapter 40 expanded eligibility for the State and local earned income tax credits, and thereby the State and local poverty level credits, by allowing a taxpayer to claim the tax credits notwithstanding certain federal requirements, which generally require that a taxpayer have a valid Social Security number at the time of tax filing. Under current law, these provisions apply to tax years 2020 through 2022. The bill extends these provisions beginning with tax year 2023.

Current Law:

State and Federal Earned Income Credits

Low- and moderate-income workers may be eligible for a federal refundable credit that generally equals a specified percentage of earned income (wages and other employee compensation plus net self-employment earnings) up to a maximum dollar amount. 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 earned income credit. To be eligible in tax year 2022, a taxpayer must have earned income, investment income of \$10,300 or less, and a modified federal adjusted gross income of less than:

- \$53,057 (\$59,187 married filing jointly) with three or more qualifying children;
- \$49,399 (\$55,529 married filing jointly) with two qualifying children;
- \$43,492 (\$49,622 married filing jointly) with one qualifying child; and
- \$16,480 (\$22,610 married filing jointly) with no qualifying children.

Under federal law, eligibility for individuals without a qualifying child has typically been 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. Recent federal legislation expanded, for tax year 2021 only, the federal tax credit for individuals without a qualifying child by increasing its value and altering the age requirements necessary to claim the credit.

State and Local 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 State nonrefundable credit reduces a taxpayer's liability to zero, the taxpayer is eligible to claim a State refundable credit.

A taxpayer can also claim a nonrefundable earned income credit against the local income tax. The amount of the credit allowed against the local income tax is equal to the federal credit claimed multiplied by 10 times the county income tax rate, not to exceed the income tax liability. Although no county has established a refundable earned income credit that can be claimed with a tax return in the method provided under State law, the Montgomery County Working Families Income Supplement is based on the State refundable credit claimed by a county resident.

Poverty Level Credit

A taxpayer who claims the nonrefundable earned income credit may also qualify to claim the State and local poverty level credits. The nonrefundable poverty level credits are intended to ensure that workers earning less than the poverty level do not pay State and local income taxes. Generally, if a household's State tax exceeds 50% of the federal earned income credit and the household's income is below the applicable poverty level, the household may claim a credit equal to 5% of its earned income. A separate poverty level

credit is allowed against the county income tax, in an amount equal to about 50% of the State credit allowed, depending on the county income tax rate.

State Revenues: Beginning in tax year 2022, the bill expands the credit that can be claimed by individuals without qualifying children. Beginning in tax year 2023, the bill makes permanent the temporary expansions of the State earned income credit enacted by Chapter 39 and Chapter 40 of 2021. As a result, general fund revenues decrease by \$24.7 million in fiscal 2023 and by \$201.0 million in fiscal 2027, as shown in **Exhibit 1**.

Exhibit 1
State Revenue Impacts
Fiscal 2023-2027
(\$ in Millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State Revenues	(\$24.7)	(\$182.2)	(\$190.3)	(\$194.3)	(\$201.0)

Source: Department of Legislative Services

State Expenditures: The Comptroller’s Office advises that it will incur additional costs beginning in fiscal 2023 as a result of hiring four revenue examiners and one revenue specialist to verify tax credit claims. General fund expenditures increase by \$233,800 in fiscal 2023, which reflects a January 1, 2023 hiring date. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salaries and Fringe Benefits	\$191,291
Operating Expenses	42,468
Total FY 2023 Expenditures	\$233,759

Future year expenditures reflect full salaries with annual increases and employee turnover as well as ongoing operating expenses.

Local Expenditures: Local income tax revenues decrease due to additional local earned income and poverty level credits claimed against the personal income tax. Local income tax revenues will decrease by an estimated \$7.5 million annually in fiscal 2024 through fiscal 2027.

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
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the returns are filed. Accordingly, Montgomery County expenditures may increase beginning in fiscal 2024.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 28, 2022
fnu2/jrb

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