

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 404

(The President, *et al.*) (By Request - Administration)

Budget and Taxation

Working Marylanders Tax Relief Act of 2022

This Administration bill makes permanent the temporary expansion of the State refundable earned income credit enacted by Chapter 39 of 2021 (the Recovery for the Economy, Livelihoods, Industries, Entrepreneurs, and Families (RELIEF) Act). **The bill takes effect July 1, 2022, and applies to tax year 2023 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by \$106.2 million in FY 2024 due to the additional tax credits claimed against the personal income tax. Future year estimates reflect the estimated number of eligible individuals and projected tax credit values. Expenditures are not affected.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	\$0	(\$106.2)	(\$108.8)	(\$111.0)	(\$112.1)
Expenditure	0	0	0	0	0
Net Effect	\$0.0	(\$106.2)	(\$108.8)	(\$111.0)	(\$112.1)

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 2025. Revenues are not affected.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Current Law: The RELIEF Act 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. These provisions expire after tax year 2022, and the percentage value of the refundable tax credit for all taxpayers is equal to 28% beginning in tax year 2023.

Background:

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.

Chapter 40 of 2021 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. These provisions apply to tax years 2020 through 2022.

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.

Federal and State Credit Participation Rates

The Internal Revenue Service recently estimated that about 24% of eligible taxpayers in Maryland did not claim the federal earned income tax credit, compared to 22% of eligible taxpayers that did not claim the credit nationally. Since 2011, Maryland's participation rate has decreased by 4 percentage points, compared to a national participation rate decrease of less than 1 percentage point.

In tax year 2020, 347,500 tax returns claimed a total of \$296.8 million in State refundable earned income credits. Compared to the previous year, the total amount claimed increased by about \$133.0 million, and the average amount claimed (\$847) increased by about \$300. These totals include an estimated 40,700 tax returns that claimed \$34.8 million in refundable credits due to the expanded eligibility requirements enacted by Chapter 40.

State Revenues: Beginning in tax year 2023, the bill makes permanent the temporary expansion of the State refundable earned income credit enacted by the RELIEF Act. As a result, general fund revenues decrease by \$106.2 million in fiscal 2024 and by \$112.1 million in fiscal 2027, as shown in **Exhibit 1**. This estimate is based on the Comptroller's Office tax year 2020 analysis of the impact of the RELIEF Act provisions, adjusted for the projected change in claimants and tax credit values.

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	\$0	(\$106.2)	(\$108.8)	(\$111.0)	(\$112.1)

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 2025.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 422 (The Speaker, *et al.*) (By Request - Administration) - Ways and Means.

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

Fiscal Note History: First Reader – February 7, 2022
rh/jrb

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Working Marylanders Tax Relief Act of 2022

BILL NUMBER: SB 404

PREPARED BY: Kaitlin Marsden Sweetin

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The RELIEF Act of 2021 increased the refundable enhanced earned income tax credit (EITC) to 100% for workers without a qualifying child and 45% for other workers, however this relief is currently only temporary. This legislation will make permanent the EITC from the RELIEF Act. This legislation would provide working families with another \$650 million in cumulative tax relief.