



FEBRUARY 26, 2020

# A State Child Tax Credit Would Make a Big Difference for Thousands of Kids across Maryland

## Position statement in support of Senate Bill 638

*Given before the Senate Budget and Taxation Committee*

Every child deserves to grow up in a safe home free of the daily stress that comes with economic insecurity. The federal Child Tax Credit advances this goal by providing an income boost to 300,000 low-income Maryland families with children, but it currently provides only minimal benefits to many families, and locks some out entirely.<sup>i</sup> The Maryland Center on Economic Policy supports Senate Bill 638 because it would extend a much-needed income boost to 34,000 or more Maryland children who are locked out of the federal credit.

The federal Child Tax Credit provides families an income boost of up to \$2,000 per child at tax time. The credit benefits households in a wide range of income levels, with the majority taking home between \$10,000 and \$75,000 each year. About 300,000 Maryland households claimed the low-income (refundable) portion of the credit in 2016. Research shows that this income boost can bring lifetime benefits—improving children’s health, helping them succeed in school, and ultimately enabling many to get better jobs in adulthood.<sup>ii</sup> Yet for many children who would gain the most from increased family income, the credit currently provides only small benefits or leaves them out entirely:

- Families whose income is less than \$2,500 per year are not eligible to claim the credit at all.
- Families with slightly higher incomes—up to about \$25,000 for a single parent with one child, or higher for larger families—can claim a partial credit, but are not eligible for the full \$2,000 per child.
- The Trump administration’s signature federal tax overhaul expanded the maximum value of the credit from \$1,000 to \$2,000 per child, but capped the refundable portion that is most helpful to low-income families at a lower amount. This choice shut struggling families out of the biggest benefits, even as the law handed a windfall to large corporations and wealthy individuals.
- Worse yet, the 2017 tax law for the first time required children to have a social security number to be eligible for the full credit, taking much-needed benefits away from about 1 million children nationwide who were born outside the United States.

Senate Bill 638 would guarantee low-income families with young children or children with disabilities a benefit of \$500 per child. Unlike the federal credit, Senate Bill 638 does not lock out children in families with the lowest incomes or children without a social security number. Altogether, it would put \$17 million into the hands of thousands of families each year, benefiting 34,000 or more Maryland children.<sup>iii</sup> This modest income boost could mean better access to nutritious food or enriching reading materials, or could even help keep the electricity or heat on.

We owe it to Maryland children to guarantee a basic living standard and a foundation for success at school and in the workforce. Senate Bill 638 would represent an important step in that direction, correct shortcomings in the federal child tax credit, and bring meaningful benefits to tens of thousands of Maryland children.

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on Senate Bill 638.**

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## Equity Impact Analysis: Senate Bill 638

### *Bill summary*

Senate Bill 638 would create a state counterpart to the federal child tax credit. Tax filers would be eligible to claim the credit if they have a qualifying child under age six or an older child who has a disability, and have federal adjusted gross income under \$6,000. The credit would guarantee that eligible filers receive a combined state and federal child tax credit of \$500. Unlike the federal credit, the state credit would not exclude child in families with very low incomes or children who do not have a social security number.

### *Background*

The federal Child Tax Credit provides families a credit of up to \$2,000 per child. In 2016, about 300,000 Maryland households claimed the refundable portion of the credit, which is capped at \$1,400 per child. Families with annual income less than \$2,500 are not eligible to claim the federal credit, and families with income below about \$25,000 can claim only a partial credit. Research shows that increased family income in early childhood can bring lifetime health, educational, and workforce benefits.<sup>iv</sup>

The 2017 federal tax overhaul expanded the maximum value of the credit from \$1,000 to \$2,000 per child, but capped the refundable portion that is most helpful to low-income families at \$1,400, meaning that millions of children nationwide saw only minimal gains. The law also for the first time required children to have a social security number to be eligible for the full credit, taking away existing benefits from about 1 million children nationwide.

### *Equity Implications*

While there are not sufficient data to estimate the characteristics of people who would benefit from Senate Bill 638, data from the current federal child tax credit as well as legislation to improve the credit suggest that the bill would likely bring the largest benefits to women and people of color:

- The Working Families Tax Relief Act is a bill that would expand and improve the federal earned income tax credit and child tax credit, including reforms similar to those in Senate Bill 638. Among Maryland households expected to benefit from this bill, 57 percent are households of color; 40% are Black households; 11 percent are Latinx households; and 8 percent are Asian, American Indian/Alaska Native, or belonging to another racial group.<sup>v</sup>
- As of tax year 2012, 65 percent of Maryland parents benefiting from the federal earned income tax credit or child tax credit were women.<sup>vi</sup>
- Because Senate Bill 638 increases benefits for families with the lowest incomes—who, because of historical and ongoing policies, are disproportionately made up of women and people of color—the bill would likely have even greater benefits for these groups than the current child tax credit.

- The bill departs from the 2017 tax law and the general Trump administration approach of intentionally harming people born outside the United States. Instead, Senate Bill 638 offers the credit to immigrant and United States-born children equally.

*Impact*

Senate Bill 638 would likely **improve racial, gender, and economic equity** in Maryland.

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i "The Child Tax Credit: A Tool for Fighting Child Poverty in Maryland," Center on Budget and Policy Priorities, 2019, [https://www.cbpp-multimedia.org/1-25-19tax/1-25-19tax\\_acte\\_maryland\\_statewide.pdf](https://www.cbpp-multimedia.org/1-25-19tax/1-25-19tax_acte_maryland_statewide.pdf)

ii Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon Debot, "ETC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds," Center on Budget and Policy Priorities, 2015, <https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>

iii Total benefits from Senate Bill 638 Fiscal and Policy Note. At a maximum benefit of \$500 per child, this cost implies that at least 34,000 children would receive the credit.

iv Marr et al., 2015.

v Chuck Marr, Brendan Duke, Yixuan Huang, Jennifer Beltrán, Vincent Palacios, and Arloc Sherman, "Working Families Tax Relief Act Would Raise Incomes of 46 Million Households, Reduce Child Poverty," Center on Budget and Policy Priorities, 2019, <https://www.cbpp.org/research/federal-tax/working-families-tax-relief-act-would-raise-incomes-of-46-million-households>

vi "Fact Sheet: 21 Million Mothers Benefit from Tax Credits for Lower-Income Working Families," Center on Budget and Policy Priorities, 2015, <https://www.cbpp.org/research/federal-tax/fact-sheet-21-million-mothers-benefit-from-tax-credits-for-lower-income-working>  
 "Fact Sheet: 21 Million Fathers Benefit from Tax Credits for Lower-Income Working Families," Center on Budget and Policy Priorities, 2015, <https://www.cbpp.org/research/federal-tax/fact-sheet-13-million-fathers-benefit-from-tax-credits-for-lower-income-working>