



FEBRUARY 20, 2020

# Expanding Maryland’s Earned Income Tax Credit Will Benefit Families and the Economy

## Position Statement Supporting House Bill 680

*Given before the House Ways and Means Committee*

The Earned Income Tax Credit is a commonsense tax break that helps people who work but struggle to get by due to low wages and also boosts the economy. However, Maryland’s credit isn’t as effective as it could be for workers who aren’t raising children. Increasing the value of the credit in Maryland would create greater economic stability for low-wage workers now largely left out of this effective anti-poverty tool while also supporting local businesses. For these reasons, the Maryland Center on Economic Policy supports House Bill 680.

Research continues to show that the EITC is one of the most effective anti-poverty tools we have. Maryland’s current EITC offers an essential hand up for thousands of working families but it is not as effective for thousands of other low-wage workers. Workers who don’t have children and those who don’t claim a child as a dependent on their taxes get a very small credit – an average of about \$90 – even if they have very low incomes. In fact, many people who work for very low wages go deeper into poverty because they don’t qualify for a meaningful tax break.<sup>1</sup>

House Bill 680 would help change that for more than 280,000 Marylanders who are now struggling to get by on low wages. They would receive an average tax credit of about \$370 – more than three times the average under current law – up to a maximum of \$520. This would place the credit more in line with what families that qualify for the EITC receive, helping low-income individuals pay for essential expenses like food, utilities or car repairs.

The federal EITC was highly successful in the 1990s at helping more single mothers start working and continue to work, and many researchers believe that expanding the credit would have a similarly positive effect for young men and women with lower levels of education, a segment of the population that is still seeing lower levels of employment, despite the overall low unemployment rate.<sup>2</sup> That’s because the credit increases with each dollar people with very low incomes earn, up to a point, and then phases out when a worker reaches a modest income level.

Expanding the tax credit would also benefit Maryland businesses. Because EITC recipients have very low incomes, they are most likely to spend their tax refunds on basic necessities at businesses in their community. Every dollar invested in the EITC generates \$1.23 of economic activity, according to one estimate.<sup>3</sup>

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 680.**

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### **Equity Impact Analysis: House Bill 680**

#### *Bill summary*

HB 680 increases the value of Maryland’s Earned Income Tax Credit for workers who don’t have children and non-custodial parents who aren’t claiming dependents on their taxes by increasing the state credit to a 100% match of the federal credit for eligible filers. HB 680 does not alter the credit amount for filers claiming depending children.

#### *Background*

The refundable portion of Maryland’s EITC is currently 28% of the federal credit. For people who qualify for the EITC and aren’t claiming dependent children on their taxes, the maximum federal credit is \$529, and the average state EITC is \$89. If HB 680 is passed, the average state credit for workers without children is expected to increase to about \$370.

#### *Equity Implications*

- Expanding the EITC would make our tax system more equitable. The lowest-income Marylanders now pay about 9.8 percent of their income in state and local taxes – a greater share of their income than the wealthiest 1 percent of Marylanders (those earning more than \$534,800 per year).<sup>4</sup>
- Especially if combined with House Bill 679, House Bill 680 would take a meaningful step towards correcting this imbalance.
- Due to various structural barriers to opportunity, Black and Latinx workers are far more likely than white workers to earn poverty-level wages and are therefore more likely to qualify for the EITC. While state and federal EITCs serve a larger number of white households than households in any other racial or ethnic group, they serve a larger proportion of people of color.
- EITCs also have a disproportionate impact in reducing poverty rates among households of color.<sup>5</sup>

#### *Impact*

House Bill 680 would likely **improve racial and economic equity** in Maryland.

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- <sup>1</sup> Chuck Marr and Chy-Ching Huang, “Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty.” Center on Budget and Policy Priorities. February 20, 2015. <http://www.cbpp.org/research/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce-poverty>
- <sup>2</sup> Chuck Marr et al. “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds.” Center on Budget and Policy Priorities. October 1, 2015. <http://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>
- <sup>3</sup> Mark Zandi, “An Analysis of the Obama Jobs Plan.” Moody’s Analytics, Sept. 9, 2011. <https://www.economy.com/dismal/analysis/free/224641>
- <sup>4</sup> Institute on Taxation and Economic Policy, “Who Pays? 6<sup>th</sup> Edition, State-by-state data,” Oct. 17, 2018, <https://itep.org/whopays-map/>
- <sup>5</sup> Michael Leachman et. al. “Advancing Racial Equity With State Tax Policy,” Center on Budget and Policy Priorities, Nov. 15, 2018. <https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy>

**Estimated Combined District Level Impacts of House Bills 679 and 680**

District	Current Law		Post-Expansion		
	EITC Returns No Children	Total MD EITC No Children	EITC Returns No Children	Total MD EITC No Children	
				Post-Expansion	Change
MD 01A	1,300	\$114,000	2,500	\$679,000	\$565,000
MD 01B	1,300	\$113,000	2,500	\$669,000	\$557,000
MD 01C	1,300	\$113,000	2,400	\$672,000	\$559,000
MD 02A	2,500	\$223,000	4,700	\$1.3 million	\$1.1 million
MD 02B	1,400	\$126,000	2,700	\$746,000	\$620,000
MD 03A	2,100	\$188,000	4,000	\$1.1 million	\$927,000
MD 03B	800	\$70,000	1,500	\$415,000	\$345,000
MD 04	2,400	\$209,000	4,500	\$1.2 million	\$1.0 million
MD 05	2,600	\$231,000	5,100	\$1.4 million	\$1.1 million
MD 06	4,100	\$378,000	7,800	\$2.2 million	\$1.9 million
MD 07	2,600	\$237,000	4,900	\$1.4 million	\$1.2 million
MD 08	3,500	\$321,000	6,600	\$1.9 million	\$1.6 million
MD 09A	1,200	\$106,000	2,300	\$629,000	\$523,000
MD 09B	700	\$61,000	1,300	\$363,000	\$302,000
MD 10	3,300	\$307,000	6,400	\$1.8 million	\$1.5 million
MD 11	2,500	\$225,000	4,700	\$1.3 million	\$1.1 million
MD 12	3,000	\$273,000	5,800	\$1.6 million	\$1.3 million
MD 13	2,600	\$236,000	5,000	\$1.4 million	\$1.2 million
MD 14	2,900	\$279,000	5,600	\$1.7 million	\$1.4 million
MD 15	2,300	\$209,000	4,300	\$1.2 million	\$1.0 million
MD 16	1,500	\$140,000	2,800	\$830,000	\$690,000
MD 17	3,200	\$293,000	6,100	\$1.7 million	\$1.4 million
MD 18	3,000	\$279,000	5,700	\$1.7 million	\$1.4 million
MD 19	3,700	\$353,000	7,100	\$2.1 million	\$1.7 million
MD 20	4,400	\$418,000	8,400	\$2.5 million	\$2.1 million
MD 21	3,300	\$308,000	6,300	\$1.8 million	\$1.5 million
MD 22	4,200	\$381,000	8,000	\$2.3 million	\$1.9 million
MD 23A	1,000	\$90,000	1,900	\$532,000	\$442,000
MD 23B	1,600	\$142,000	3,000	\$846,000	\$704,000
MD 24	3,300	\$296,000	6,300	\$1.8 million	\$1.5 million
MD 25	3,000	\$266,000	5,700	\$1.6 million	\$1.3 million
MD 26	3,100	\$286,000	6,000	\$1.7 million	\$1.4 million
MD 27A	900	\$76,000	1,700	\$454,000	\$378,000
MD 27B	700	\$62,000	1,400	\$370,000	\$308,000
MD 27C	900	\$78,000	1,700	\$464,000	\$386,000
MD 28	2,700	\$242,000	5,100	\$1.4 million	\$1.2 million
MD 29A	700	\$58,000	1,200	\$346,000	\$288,000
MD 29B	800	\$76,000	1,600	\$451,000	\$375,000

MD 29C	700	\$66,000	1,400	\$394,000	\$328,000
MD 30A	1,700	\$154,000	3,200	\$913,000	\$759,000
MD 30B	700	\$64,000	1,400	\$382,000	\$317,000
MD 31A	1,300	\$121,000	2,500	\$719,000	\$598,000
MD 31B	1,800	\$164,000	3,500	\$973,000	\$809,000
MD 32	3,100	\$280,000	5,900	\$1.7 million	\$1.4 million
MD 33	2,000	\$177,000	3,800	\$1.1 million	\$877,000
MD 34A	2,100	\$183,000	4,000	\$1.1 million	\$904,000
MD 34B	800	\$65,000	1,500	\$389,000	\$323,000
MD 35A	1,000	\$88,000	1,800	\$523,000	\$435,000
MD 35B	1,700	\$145,000	3,200	\$861,000	\$716,000
MD 36	2,700	\$244,000	5,300	\$1.4 million	\$1.2 million
MD 37A	1,500	\$137,000	2,900	\$816,000	\$679,000
MD 37B	2,400	\$222,000	4,600	\$1.3 million	\$1.1 million
MD 38A	1,400	\$126,000	2,700	\$749,000	\$623,000
MD 38B	1,700	\$150,000	3,300	\$890,000	\$740,000
MD 38C	1,400	\$118,000	2,600	\$701,000	\$583,000
MD 39	3,500	\$321,000	6,700	\$1.9 million	\$1.6 million
MD 40	4,200	\$381,000	8,100	\$2.3 million	\$1.9 million
MD 41	3,300	\$300,000	6,400	\$1.8 million	\$1.5 million
MD 42A	900	\$80,000	1,700	\$475,000	\$395,000
MD 42B	1,600	\$146,000	3,100	\$867,000	\$721,000
MD 43	3,700	\$322,000	7,000	\$1.9 million	\$1.6 million
MD 44A	1,400	\$127,000	2,700	\$757,000	\$629,000
MD 44B	2,200	\$203,000	4,200	\$1.2 million	\$1.0 million
MD 45	4,100	\$364,000	7,800	\$2.2 million	\$1.8 million
MD 46	3,700	\$337,000	7,100	\$2.0 million	\$1.7 million
MD 47A	2,900	\$264,000	5,500	\$1.6 million	\$1.3 million
MD 47B	1,400	\$126,000	2,600	\$746,000	\$620,000
<b>Statewide</b>	<b>147,000</b>	<b>\$13.3 million</b>	<b>281,300</b>	<b>\$79.2 million</b>	<b>\$65.9 million</b>