



FEBRUARY 23, 2021

Expanding Working Family Tax Credits Will Benefit Maryland Families, Communities, and Businesses

Position statement in support of Senate Bill 218 as amended

Given before the House Ways and Means Committee

Working family tax credits are powerful anti-poverty tools that help lift the incomes of hundreds of thousands of Marylanders above the poverty line every year, creating greater economic stability for families, health and educational benefits for children, and benefits for local businesses. Maryland has a long history of building on the federal credits to provide additional support to children and their families. **Senate Bill 218, as amended and passed in the Senate, would address two areas where discriminatory federal rules have excluded certain low-income taxpayers from receiving the federal, and by extension, state credits.** For these reasons, the Maryland Center on Economic Policy supports Senate Bill 218.

Expanding the state Earned Income Tax Credit to include everyone who is eligible based on income will help all our families and communities recover from the effects of the COVID-19 pandemic. Because of discriminatory federal policies, one group of taxpayers is currently left out of the EITC – immigrants who pay taxes using an Individual Taxpayer Identification Number rather than a Social Security Number. Low-income ITIN holders would particularly benefit from receiving the state EITC, as they are excluded from virtually every other tax credit, income support, and emergency relief program, including unemployment, federal stimulus payments, Medicaid, and food assistance through SNAP.

About 86,000 Marylanders paid income taxes using an ITIN in tax year 2019, according to the Comptroller's office. People who file taxes using an ITIN represent a range of immigration statuses, including people who are in the immigration process but not yet approved for a Social Security Number, parents with U.S. citizen children, and people with certain temporary visas. It is common for households to have members with a mix of immigration statuses, and current federal rules around the EITC exclude the entire household if one person has an ITIN.

Almost 60,000 Maryland households who pay taxes with an ITIN have income levels that could qualify them to receive the EITC, according to one estimate.¹ While available data do not allow precise estimation of how many of these households would claim a credit under Senate Bill 218, nearly one in four tax filers in this income range currently receive the EITC, and a significant number qualify but do not receive the credit.

It makes sense to use consistent rules for all taxpayers and not continue to link to discriminatory federal rules. This would provide additional economic security for families as our communities continue to recover from the pandemic. 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 like food, utilities or car repairs at businesses in

their community. Every dollar invested in the EITC generates \$1.23 of economic activity, according to one estimate.ⁱⁱ

Senate Bill 218 also continues to take an initial step to address a gap in the federal Child Tax Credit. The CTC provides 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.ⁱⁱⁱ

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.^{iv} 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.

As amended, Senate Bill 218 would guarantee very low-income families with children with disabilities a benefit of \$500 per child. Unlike the federal credit, Senate Bill 218 does not lock out children in families with the lowest incomes or children without a social security number. This modest income boost could, for thousands of families, mean better access to nutritious food or enriching reading materials, or could even help keep the electricity or heat on.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on Senate Bill 218.

Equity Impact Analysis: Senate Bill 218

Bill summary

Senate Bill 218 would expand the state Earned Income Tax Credit to all taxpayers based on income, no longer excluding people based on their immigration status. It would also create a modest state counterpart to the federal child tax credit. People who file taxes using an individual taxpayer identification number (ITIN) would become eligible for the EITC. Tax filers would be eligible to claim the child tax credit if they have a child who has a disability,

and have federal adjusted gross income under \$6,000. Unlike the federal credit, the state child tax credit would not exclude children in families with very low incomes or children who do not have a social security number.

Background

About 86,000 Marylanders paid income taxes using an ITIN in tax year 2019, according to the Comptroller's office. People who file taxes using an ITIN represent a range of immigration statuses, including people who are in the immigration process but not yet approved for a Social Security Number, parents with U.S. citizen children, and people with certain temporary visas. It is common for households to have members with a mix of immigration statuses, and current federal rules around the EITC exclude the entire household if one person has an ITIN.

ITIN holders work and pay taxes – an estimated \$100 million per year in state and local income taxes alone – but are generally not eligible for economic assistance programs and tax credits.

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.^v

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 218, 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 218. 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.^{vi}
- As of tax year 2012, 65 percent of Maryland parents benefiting from the federal earned income tax credit or child tax credit were women.^{vii}
- Because Senate Bill 218 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 218 offers the credit to immigrant and United States-born children equally.

Impact

Senate Bill 218 would likely **improve racial, gender, disability, and economic equity** in Maryland.

i “End the Tax Penalty Against Immigrant Workers,” Economic Security Project, April 2020. https://www.economicsecurityproject.org/wp-content/uploads/2020/04/emp_ITIN_EITC.pdf#page=3

ii Mark Zandi, “An Analysis of the Obama Jobs Plan.” Moody’s Analytics, Sept. 9, 2011. <https://www.economy.com/dismal/analysis/free/224641>

iii “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_actc_maryland_statewide.pdf

iv Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon Debot, “EITC 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>

v Marr et al., 2015.

vi 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>

vii “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>