



Expanding the Child Tax Credit Would Make a Big Difference for Thousands of Kids across Maryland

Position statement in support of Senate Bill 805

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. Now that a temporary measure that significantly strengthened the federal credit was allowed to expire, the federal credit once again provides only minimal benefits to many families, and locks some out entirely.ⁱ The Maryland Center on Economic Policy supports Senate Bill 805 because it would build on the modest state Child Tax Credit the General Assembly enacted in 2021 and extend a much-needed income boost to 34,000 or more Maryland children in very low-income households who are now locked out of the federal credit.

Working family tax credits like the Child Tax Credit are an important part of economic security even in the best of times, and the economic instability many low-income families with children have experienced because of the COVID-19 pandemic has made additional assistance even more vital. Marylanders in households with children were significantly more likely to report having trouble meeting basic household expenses, compared to households without children, according data from the most recent U.S. Census Bureau “Household Pulse” surveyⁱⁱ. A larger refund at tax time would be a huge help to the families struggling to make ends meet.

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 has long shown 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.ⁱⁱⁱ 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.

- While these limitations were temporarily reversed for tax year 2021 under the American Rescue Plan Act, Congress has not yet acted to further extend the major improvements Child Tax Credit that were part of that legislation. This increases the need for state-level action to

Senate Bill 805 would guarantee low-income families with young children or children with disabilities a benefit of \$500 per child. It also extends the sunset of the state credit to 2027. Unlike the federal credit, Senate Bill 805 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.^{iv} 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 805 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 805.

Equity Impact Analysis: Senate Bill 805

Bill summary

Senate Bill 805 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 \$15,000. The credit would guarantee that eligible filers receive a state Child Tax Credit of \$500. Unlike the federal credit, the state credit would not exclude children 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.^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 805, 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:

- Analysis of the Working Families Tax Relief Act, a federal bill proposed in 2020 to expand and improve the federal Earned Income Tax Credit and Child Tax Credit, including reforms similar to those in Senate Bill 805. Among Maryland households expected to benefit from this bill, 57 percent were households of color; 40% were Black households; 11 percent were Latinx households; and 8 percent were 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 805 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 approach of intentionally harming people born outside the United States. Instead, Senate Bill 805 offers the credit to immigrant and United States-born children equally.

Impact

Senate Bill 805 would likely **improve racial, gender, and economic equity** in Maryland.

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_actc_maryland_statewide.pdf

ⁱⁱ In this case, "Marylanders in households with/without children" and "households with/without children" refer to adults with at least one child under 18 in the household." MDCEP analysis of 2022 Census Household Pulse Survey data, <https://www.census.gov/programs-surveys/household-pulse-survey/data.html>

ⁱⁱⁱ 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>

^{iv} Total benefits based on the fiscal and policy note for Seate Bill 638 of 2020. At a maximum benefit of \$500 per child, this cost implies that at least 34,000 children would receive the credit.

^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>