

Increasing Reach of Earned Income Tax Credit Will Benefit Maryland Families and our Economy

Position Statement Supporting House Bill 234

Given before the House Ways and Means Committee

The federal and state Earned Income Tax Credits (EITC) help hundreds of thousands of working Marylanders who struggle to get by due to low wages and also boost the economy. However, many eligible Marylanders don't receive the benefits of this effective anti-poverty tool even though they are eligible. **The Maryland Center on Economic Policy supports House Bill 234 because it increases outreach to people who are potentially eligible for the credit, which can help eligible Marylanders receive the state and federal EITC.**

Nearly 390,000 Maryland families received an income boost from the federal EITC last year. However, about 1 in 4 who are eligible don't receive it, according to IRS data¹. The number of eligible Marylanders who aren't receiving the credit has gradually increased over the last decade, suggesting that the current outreach, education, and free tax preparation services alone aren't enough. People with very low incomes often don't earn enough to be required to file a tax return every year and may not be aware that they are missing out on refundable credits.

People also often become newly eligible for the EITC due to a disruption in employment. HB 234 would require the Department of Labor to notify people who have received unemployment insurance payments that they might be eligible for the federal and state EITC. The notice would be included on tax forms the department already mails to unemployment recipients.

It's important to ensure all eligible Marylanders are receiving the EITC because it can have such a powerful impact on people's lives. Nationwide about 5.7 million people are lifted out of poverty each year because of the EITC.² Research shows that reducing poverty through the EITC, especially for children, has significant long-term benefits, such as experiencing better health, doing better in school, and earning higher incomes later in life. It is also good for our economy, as families living paycheck-to-paycheck who receive the EITC are likely to spend their refunds on immediate needs like car repairs, clothing, or school supplies. Every dollar invested in the EITC generates \$1.23 of economic activity, according to one estimate.³

Further, this is a critical moment to take this approach because both Congress and the General Assembly passed legislation expanding the EITC in 2021, meaning many people are eligible to claim the credit for the

first time and may not be aware of the recent changes. And, many Marylanders have experienced job loss or a change in income during the pandemic that could make them eligible for the EITC for the first time. An outreach program that raises awareness of valuable credit among people who are likely to be eligible would help increase economic security and access to opportunity.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on House Bill 234.

Equity Impact Analysis: House Bill 234

Bill summary

House Bill 234 requires the Department of Labor to include a statement on 1099-G tax forms in English and Spanish that notifies people who received unemployment throughout the year that they might be eligible for the federal and state Earned Income Tax Credit.

Background

About 1 in 4 Marylanders who were eligible for the federal EITC did not claim it in 2018, the most recent year for which IRS data are available. Maryland's EITC participation rate has been slowly declining, from nearly 80% in tax year 2011 to around 75% in tax years 2017 and 2018. Similar data are not available for the state level, but Maryland has taken positive steps to expand eligibility for the state EITC in recent years, meaning there are some people who can receive the state credit but not the federal one.

Equity Implications

- 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.⁴

Impact

House Bill 234 would likely **improve racial and economic equity** in Maryland.

¹ IRS, EITC Participation Rates By State For Tax Years 2011 through 2018." <https://www.etc.irs.gov/etc-central/statistics-for-tax-returns-with-etc/statistics-for-tax-returns-with-the-earned-income>

² Center on Budget and Policy Priorities, "The Earned Income Tax Credit: A Powerful Tool to Fight Poverty and Reward Work in Maryland," 2019. https://www.cbpp-multimedia.org/1-25-19tax/1-25-19tax_etc_maryland_statewide.pdf

³ Mark Zandi, "An Analysis of the Obama Jobs Plan." Moody's Analytics, Sept. 9, 2011. <https://www.economy.com/dismal/analysis/free/224641>

⁴ 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>