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Permanently Expanding the Earned Income Tax Credit Will Benefit Maryland Workers and the Economy

Position Statement Supporting House Bill 992

Given before the House Ways and Means Committee

Working family tax credits, like Maryland's state Earned Income Tax Credit (EITC), are proven, powerful tools that help ensure kids don't grow up in poverty and help families afford the basic things their household needs. Maryland took a big step forward in supporting working families in 2021 when it expanded the state EITC to include thousands of low-income workers who were previously ineligible for the credit, and increased the value of the credit for all recipients. **The Maryland Center on Economic Policy supports House Bill 992 because it would make these powerful changes permanent.**

Further, even with the expansion, Maryland's current credit isn't as effective as it could be because the income cap is too low for workers who aren't claiming dependent children on their taxes. A slight increase in the maximum income to qualify for the EITC would create greater economic stability for low-wage workers now left out of this effective anti-poverty tool.

The 2021 expansions made more than 100,000 people newly eligible for the state EITC. The expansions also significantly increased the value of the credit for all recipients, more than 400,000 altogether:

- The average state credit is expected to increase to \$1,100, with more than 400,000 Marylanders expected to benefit from this larger credit
- Upward of 90,000 workers not claiming dependents can now get a max credit of \$530, several times greater than the credit they were previously eligible for
- More than 100,000 immigrant taxpayers are potentially now eligible for the credit, with about 40,000 households newly receiving the credit based on Tax Year 2020 filings, according to data from the Comptroller's Office.

HB 992 would go one step further and would address one other issue affecting workers who don't have children or don't claim their child as a dependent on their taxes. Once people in this group earn just over \$15,500 per year, they are no longer eligible for the credit. That means someone working full time at Maryland's current minimum wage and not claiming dependents on their taxes would

earn too much to qualify for the EITC, even though they are still earning too little to support even themselves. In fact, many people who work for very low wages go deeper into poverty because they don't qualify for a meaningful tax break¹.

House Bill 992 would help change that for more than 134,000 Marylanders who are now struggling to get by on low wages. The bill would increase the maximum income for the state EITC to \$23,540 for single filers.

People who don't claim a dependent child still can be in a caregiver role, such as a non-custodial parent, an expectant parent, or someone informally helping support and care for a family member. Other recipients are young people just starting out in the workforce and trying to support themselves. All would see significant benefits from the increased income limit and making the increased match permanent.

A more effective EITC will 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.²

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 992.

Equity Impact Analysis: House Bill 992

Bill summary

HB 992 would help low-income families in poverty by:

- Matching 45% of the federal EITC for low income working families
- Matching 100% of the federal EITC for low-income single filers unable to claim dependents
- Maintaining eligibility for taxpayers who use an Individual Taxpayer Identification Number
- Expanding income eligibility for single filers unable to claim dependents by increasing the maximum income for the state EITC to \$23,540 for single filers.

Background

In 2021, the General Assembly increased the refundable state EITC to 45% of the recipient's federal credit for families and 100% (up to \$530) for single filers unable to claim dependents. The legislature also allowed all taxpayers who meet the criteria, including those who use an ITIN to file taxes, to receive the EITC.

The maximum income limits for receiving the EITC are significantly higher for families with children – between \$40,000 and \$50,000, depending on the number of children. HB 992 would bring the income limit

for workers without children more in line with the limit for those raising children.

In 2018 the legislature removed the minimum age for receiving the EITC, allowing thousands of young low-income workers to qualify for the state EITC for the first time. Prior to 2018 the minimum age was 25.

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).³
- House Bill 992 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 color⁴.

Impact

House Bill 992 would likely **improve racial and economic equity** in Maryland.

¹ Chuck Marr and Chy-Ching Huang, “Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty.” Center on Budget and Policy Priorities. Feb. 20, 2015. <http://www.cbpp.org/research/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce-poverty>

² Mark Zandi, “An Analysis of the Obama Jobs Plan.” Moody’s Analytics, Sept. 9, 2011. <https://www.economy.com/dismal/analysis/free/224641>

³ Institute on Taxation and Economic Policy, “Who Pays? 6th Edition, State-by-state data,” Oct. 17, 2018, <https://itep.org/whopays-map/>

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>

