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Tax Fix for Late Unemployment Payments Needed to Avoid Adding Insult to Injury

Position Statement in Support of House Bill 708

Given before the House Ways and Means Committee

Maryland lawmakers did the right thing for unemployed workers by exempting unemployment insurance payments from the state income tax in the 2021 RELIEF Act, and the decision to make this exemption temporary reasonably balanced supporting workers amid historic economic turmoil with the need to maintain revenues to meet Marylanders' long-term needs. However, massive administrative failures driven by years of staff and budget cuts left some workers waiting months for the benefits they were owed and desperately needed. Adding insult to injury, workers who had to wait until 2022 to receive their payments – through no fault of their own – are not eligible for the RELIEF Act tax benefit. **The Maryland Center on Economic Policy supports House Bill 708** because it protects the intent of the RELIEF Act by extending the exemption to workers whose payments were delayed until 2022.

Unemployment insurance is an essential lifeline to ensure that workers who lose their job through no fault of their own can keep up with basic expenses like food and rent. It is also among the fastest, most effective tools to support the economy in a downturn. Its role was particularly important amid the massive job losses in the early stages of the COVID-19 pandemic. As part of the RELIEF Act of 2021, lawmakers enhanced the income boost provided by unemployment insurance by temporarily exempting benefits from the state income tax for low- and moderate-income workers.

However, administrative failures within the Maryland Department of Labor forced thousands of workers to wait weeks or even months for the payments they were owed, as housing, utility, and grocery expenses continued to pile up:ⁱ

- In 2020, nearly half of unemployment beneficiaries in Maryland waited at least three weeks to receive their first payment, the federal government's maximum recommended wait time (averaged over 12 months).
- In fact, one in four unemployment beneficiaries in 2021 waited more than 10 weeks for their first payment.
- Things got worse in 2021. Just over half of beneficiaries had to wait at least four weeks for their first payment, and 43% had not been paid after 10 weeks.
- Wait times remained extraordinarily high in 2022. On average, more than half of beneficiaries waited more than three weeks for their first payment and one-third waited more than 10 weeks. In January, March, and May of 2022, more than half of beneficiaries waited 50 days or more to receive their first payment.

For workers who had to wait until 2022 to receive benefits, this delay deprived them of the RELIEF Act tax exemption. Notably, the second-, third-, and fourth-worst months of 2021 were, respectively, December (61% of beneficiaries waited at least 10 weeks for benefits), November (61%), and October (59%).ⁱⁱ In other words, a major backlog remained when the tax exemption expired January 1.

These severe delays were both exceptional and predictable:

- Nationwide, the total share of unemployed workers receiving their first payment within three weeks never dropped below 50% from 2020 to 2022.
- In Maryland, more than half of workers waited at least three weeks in 22 out of 36 months – and in 6 out of 36 months, more than half of Maryland beneficiaries waited at least 10 weeks.
- Former Gov. Hogan’s Secretary of Labor Tiffany Robinson pointed to understaffing as a major contributor to this poor performance. The state’s Division of Unemployment Insurance entered the COVID-19 pandemic with 480 full-time equivalent staff (internal and contractual positions). Between FY 2003 and FY 2015 – a period that included both high and low extremes of the labor market – the division’s workforce ranged between 590 and 702 full-time equivalents.ⁱⁱⁱ
- In short, year after year of budget and staffing reductions set us up to let down Maryland workers. Losing the RELIEF Act tax exemption was simply one of the final harms.

Administrative failures in Maryland’s unemployment insurance system disproportionately harmed workers of color. While the state does not report wait times by race and ethnicity – a choice that limits the information available to policymakers and the public for assessing policy impacts^{iv} – structural barriers in our economy often stand between Black and Latinx workers and good jobs:^v

- In 2020, Black Marylanders had an average unemployment rate of 8.8% (the share of the labor force actively looking for a job but unable to find one), compared to 5.3% among white Marylanders.
- In 2021, the unemployment rate for Black workers in Maryland averaged 7.5%, compared to 4.7% among white workers.
- While earlier data are not available, Latinx Marylanders faced an unemployment rate of 4.8% between March and September of 2022, while the unemployment rate for white workers fell from 3.7% in the first half of this period to 3.4% in the second half.

While it is too late to undo the months of hardship and anxiety unemployed workers faces as they waited for delayed benefits, **House Bill 708 would make a meaningful difference.** The bill is simple: It requires the Comptroller of Maryland to make a one-time grant payment to workers who lost the tax exemption due to at least 30 days of administrative delay, equal to the amount of tax benefits they lost through no fault of their own. This straightforward fix ensures that the RELIEF Act is implemented as intended, with zero effect on the state’s long-term fiscal position.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 708.

Equity Impact Analysis: House Bill 708

Bill summary

House Bill 708 requires the Comptroller of Maryland to make a one-time grant payment to workers who applied for unemployment benefits in 2020 or 2021, faced an eligibility determination delay of at least 30 days, and paid state income taxes on payments received in 2022 that would have been tax-exempt if they had been paid on time. The grant payment is equal to the amount of taxes paid on these late benefits.

Background

Maryland's unemployment rate increased sharply at the onset of the COVID-19 pandemic, increasing from an average of 3.5% during 2019 to a high of 9.0% in spring 2020.^{vi} Unemployment has since fallen gradually, reaching 4.0% in December 2022.

The state's Division of Unemployment Insurance entered the COVID-19 pandemic with 480 full-time equivalent staff (internal and contractual positions), down from a high of 702 in FY 2013. Between FY 2003 and FY 2015, the division never had less than 590 full-time equivalent staff. As unemployment surged during the pandemic, the division struggled to keep up with applications, leading to exceptionally long wait times.

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- In fact, one in four unemployment beneficiaries in 2021 waited more than 10 weeks for their first payment.
- Things got worse in 2021. Just over half of beneficiaries had to wait at least four weeks for their first payment, and 43% had not been paid after 10 weeks.
- Wait times remained extraordinarily high in 2022. On average, more than half of beneficiaries waited more than three weeks for their first payment and one-third waited more than 10 weeks. In January, March, and May of 2022, more than half of beneficiaries waited 50 days or more to receive their first payment.

Under the RELIEF Act (Senate Bill 496/Chapter 39 of 201), unemployment insurance benefits received in tax years 2020 and 2021 are exempt from the state income tax.

Equity Implications

Structural barriers in our labor market, which were built through centuries of racist policy choices, put Black workers and other workers of color at greater risk of being unemployed – actively seeking a job but unable to find one. For this reason, ineffective or overly restrictive unemployment insurance policies disproportionately harm workers of color.

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- While earlier data are not available, Latinx Marylanders faced an unemployment rate of 4.8% between March and September of 2022, while the unemployment rate for white workers fell from 3.7% in the first half of this period to 3.4% in the second half.
- While higher levels of education do improve a person’s prospects in the labor market, even highly educated workers of color often face barriers. For example, between 2015 and 2019 in Maryland, the average unemployment rate among Latinx women with a four-year degree was 4.3%, compared to 2.3% among white women with a four-year degree.
- These are not isolated cases. During the same period, Black and multiracial men with a four-year degree, as well as essentially all women of color with a four-year degree, faced higher unemployment rates than white men with the same level of education.

Impact

House Bill 708 would likely **improve racial and economic equity** in Maryland.

ⁱ U.S. Department of Labor Unemployment Insurance Program Performance Core Measures, <https://oui.doleta.gov/unemploy/performance1.asp>

ⁱⁱ U.S. Department of Labor Unemployment Insurance Program Performance Core Measures.

ⁱⁱⁱ Maryland operating budget.

^{iv} See Christopher Meyer, “Budgeting for Opportunity: Racial Equity Analysis as a Tool to Advance Justice through Fiscal Policy,” Maryland Center on Economic Policy, 2023, <http://www.mdeconomy.org/budgeting-for-opportunity-fiscal-policy/>

^v Kyle Moore, “Economic Indicators: State Unemployment by Race and Ethnicity,” Economic Policy Institute, 2022, <https://www.epi.org/indicators/state-unemployment-race-ethnicity/> and Economic Policy Institute State of Working America Data Library, based on EPI analysis of Current Population Survey – Outgoing Rotation Group.

^{vi} BLS Local Area Unemployment Statistics.