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# Strengthening Working Family Tax Credits Will Benefit Maryland Families and the Economy

## Position Statement Supporting Senate Bill 552

*Given before the Senate Budget and Taxation Committee*

Working family tax credits, like Maryland's state Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), are proven, powerful tools that help ensure kids don't grow up in poverty and help families afford the basic things their households need. Maryland took a big step forward in supporting working families in 2021 when it created a modest CTC, 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 Senate Bill 552, the Family Prosperity Act, because it would create long-term economic security for working families.**

### Preserving a Stronger Earned Income Tax Credit

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 increased to \$1,100, with more than 400,000 Marylanders benefitting from this larger credit
- Upward of 90,000 workers not claiming dependents became eligible for a max credit of \$530, several times greater than the credit they were previously eligible for. SB 552 would allow the max credit to increase with inflation, matching 100% of the federal credit for workers not claiming dependents on their taxes.
- More than 100,000 immigrant taxpayers are potentially now eligible for the credit, with 30,000 to 40,000 households per year newly receiving the credit based on Tax Year 2020 and 2021 filings, according to data from the Comptroller's Office.

Whether it's covering a large one-time expense, like a car repair or books for school, or making it easier to cover the monthly bills, refundable tax credits can have a powerful impact. With rapidly rising costs for everyday essentials like food, gas, and rent, Maryland families need this support more than ever. SB 552 would make the 2021 expansions of the EITC permanent.

### Reducing Child Poverty Through a Stronger Child Tax Credit

SB 552 would also build on the modest state Child Tax Credit the General Assembly enacted in 2021 and extend a much-needed income boost to 24,000 or more Maryland children in very low-income households who are now locked out of the federal CTC.

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.<sup>1</sup> 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 strengthen the credit.

Senate Bill 552 would guarantee low-income families with young children or children with disabilities a benefit of \$500 per child. It also removes the sunset and makes the credit permanent. Unlike the federal credit, Senate Bill 552 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.<sup>2</sup> 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.

### **Strengthening the EITC for Workers Not Claiming Dependents**

As drafted, SB 552 currently leaves out one additional reform that was included in similar legislation in the past (HB 992 of 2022). This change 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 break.<sup>3</sup>

MDCEP recommends strengthening SB 552 by increasing the maximum income for the state EITC to \$23,540 for single filers. This would benefit more than 134,000 Marylanders who are now struggling to get by on low wages.

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.

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on Senate Bill 552.**

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## Equity Impact Analysis: Senate Bill 552

### *Bill summary*

SB 552 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
- Strengthening Maryland's 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.

### *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.

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.

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.

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

- 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).<sup>4</sup>
- Senate Bill 552 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 color.<sup>5</sup>

While there are not sufficient data to estimate the characteristics of people who would benefit from the Child Tax Credit portion of the bill, data from the 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 SB 552. Among 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.
- As of tax year 2012, 65 percent of Maryland parents benefiting from the federal EITC or CTC were women.
- Because SB 552 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, SB 552 offers the credit to immigrant and United States-born children equally.

## Impact

Senate Bill 552 would likely **improve racial, economic, and gender equity** in Maryland.

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<sup>1</sup> 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>

<sup>2</sup> Total benefits based on the fiscal and policy note for House Bill 919 of 2022. At a maximum benefit of \$500 per child, this cost implies that at least 34,000 children would receive the credit.

<sup>3</sup> Chuck Marr and Chye-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>

<sup>4</sup> Institute on Taxation and Economic Policy, "Who Pays? 6<sup>th</sup> Edition, State-by-state data," Oct. 17, 2018, <https://itep.org/whopays-map/>

<sup>5</sup> 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>

