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

Position Statement Supporting House Bill 542

Given before the Senate Budget and Taxation Committee

The Earned Income Tax Credit (EITC) is a commonsense tax break that helps people who work but struggle to get by due to low wages and also boosts the economy. However, Maryland's credit isn't as effective as it could be because the income cap for workers not raising children is too low. Increasing 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. **For these reasons, the Maryland Center on Economic Policy supports House Bill 542.**

Research continues to show that the EITC is one of the most effective anti-poverty tools we have. Maryland's current EITC offers an essential hand up for thousands of working families but it is not as effective for thousands of other low-wage workers. For workers who don't have children and those who don't claim their child as a dependent on their taxes, once they earn more than \$19,104 per year, they are no longer eligible for the credit. That means someone working even 25 hours per week at Maryland's 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 maintain a basic living standard. In fact, many people who work for very low wages go deeper into poverty because they don't qualify for a meaningful tax break.¹

House Bill 542 would help change that for well over 100,000 Marylanders who are now struggling to get by on low wages.² People who are likely to benefit include young adults just getting started in the workforce, expectant parents, divorced or separated parents who aren't the primary caregiver, veterans, and older adults who are no longer supporting children. The bill would increase the maximum income for the state EITC to \$27,000 for single filers.

Expanding the tax credit also benefits 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.³

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on House Bill 542.

Equity Impact Analysis: House Bill 542

Bill summary

House Bill 542 increases access to the Maryland Earned Income Tax Credit for workers who don't have children and non-custodial parents who aren't claiming dependents on their taxes. Currently, the credit is capped at adjusted gross income of \$19,104 for people without children. House Bill 542 would increase the cap to adjusted gross income of \$27,000, just under 180% of the federal poverty level.

Background

The maximum income limits for receiving the EITC are significantly higher for families with children – between \$50,000 and \$68,000, depending on filing status and the number of children. House Bill 542 would bring the income limit for workers without children more in line with the limit for those raising children.

The legislature temporarily increased the state EITC for claimers without qualifying dependent children to 100% of the federal credit in 2021 and subsequently made this increase permanent through Chapters 3 and 4 of 2023 (the Family Prosperity Act).

Equity Implications

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- 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 542 would likely **improve racial and economic equity** in Maryland.

¹ Chuck Marr, "A Clear Policy Choice: Repeat Success by Expanding the EITC for Adults without Children," Center on Budget and Policy Priorities, 2023, <https://www.cbpp.org/blog/a-clear-policy-choice-repeat-success-by-expanding-the-eitc-for-adults-without-children>

² Institute on Taxation and Economic Policy Microsimulation Tax Model

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>

