

Department of Legislative Services  
Maryland General Assembly  
2022 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 234  
Economic Matters

(Delegate Palakovich Carr)

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Unemployment Insurance – Notice of Earned Income Tax Credits for  
Unemployment Insurance Claimants

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This bill requires the Maryland Department of Labor (MDL) to include a statement on the availability of the federal and State earned income tax credits on each Internal Revenue Service (IRS) Form 1099-G issued to unemployment insurance (UI) claimants. The statement must be in English and Spanish. MDL must consult with an entity that has experience providing free tax preparation services through the IRS Volunteer Income Tax Assistance grant program. **The bill takes effect July 1, 2022.**

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Fiscal Summary

**State Effect:** General fund revenues may decrease beginning as early as FY 2023 due to additional tax credits claimed against the personal income tax. MDL can issue notifications using existing budgeted resources.

**Local Effect:** Local revenues may decrease beginning as early as FY 2023 due to additional tax credits claimed against the local income tax. Montgomery County expenditures for its related program may increase beginning as early as FY 2024.

**Small Business Effect:** None.

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Analysis

**Current Law:**

*Internal Revenue Service Form 1099-G*

IRS Form 1099-G is sent to recipients of certain government payments. A copy must also be sent to the IRS. The statement is used to determine the federal and State income tax

liability of the recipient. MDL issues the statement to an individual who received Maryland UI benefits in the prior calendar year.

### *State and Federal Earned Income Tax Credits*

Low- and moderate-income workers may be eligible for a federal refundable credit that generally equals a specified percentage of earned income (wages and other employee compensation plus net self-employment earnings) up to a maximum dollar amount. Except as discussed below, Maryland conforms to the federal eligibility standards – only those individuals who claim the federal earned income tax credit may claim the State earned income credit. The IRS recently estimated that about 22% of all eligible taxpayers did not claim the earned income tax credit. Maryland had a lower participation rate; about 24% of eligible taxpayers did not claim the credit. Since 2011, the Maryland participation rate decreased by 4 percentage points, compared to a national participation rate decrease of less than 1 percentage point. In recent tax years, a similar number of Maryland taxpayers have claimed the State and federal tax credits.

Under federal law, eligibility for individuals without a qualifying child is limited to individuals who are between ages 25 and 64. Chapters 611 and 612 of 2018 expanded eligibility for the State credit that can be claimed by an individual without a qualifying child by eliminating the requirement that an individual must be at least 25 years of age.

Chapter 40 of 2021 expands eligibility of the State and local earned income tax credits, and thereby the State and local poverty level credits, by allowing a taxpayer to claim the tax credits notwithstanding certain federal requirements, which generally require that a taxpayer have a valid Social Security number at the time of tax filing. These provisions apply to tax years 2020 through 2022.

### *State Earned Income Credits*

Maryland offers a nonrefundable credit, which is equal to the lesser of 50% of the federal credit or the State income tax liability in the taxable year. If the State nonrefundable credit reduces a taxpayer's liability to zero, the taxpayer is eligible to claim a State refundable credit.

Chapter 39 of 2021 (the Recovery for the Economy, Livelihoods, Industries, Entrepreneurs, and Families (RELIEF) Act) enacted changes to the refundable earned income credit. In tax years 2020 through 2022, the refundable tax credit is generally equal to 45% of the federal credit, minus any pre-credit State tax liability. In these same tax years, an individual without a qualifying child can claim a refundable credit equal to 100% of the federal credit, subject to a maximum of \$530. Beginning in tax year 2023, the percentage value of the refundable tax credit for all taxpayers is equal to 28%.

The RELIEF Act also required the Comptroller's Office to conduct a tax year 2020 eligibility awareness campaign encouraging eligible individuals to claim the federal and State credits.

#### *Local Earned Income Credits*

A taxpayer can also claim a nonrefundable earned income credit against the local income tax. Although no county has established a refundable earned income credit that can be claimed with a tax return in the method provided under State law, the Montgomery County Working Families Income Supplement is based on the State refundable credit claimed by a county resident.

#### *Poverty Level Credit*

A taxpayer who claims the nonrefundable earned income credit may also qualify to claim the State and local poverty level credits. The nonrefundable poverty level credits are intended to ensure that workers earning less than the poverty level do not pay State and local income taxes.

#### *State and Federal Notification Requirements*

Federal and State requirements establish that employers must issue an annual notification to certain employees who may be eligible to claim the earned income tax credit.

**State Fiscal Effect:** The bill requires MDL to include a statement about the availability of the federal and State earned income tax credits on each IRS Form 1099-G the department issues. MDL advises it has partnered with the Cash Campaign of Maryland to promote awareness of the State earned income credit and health care coverage options. The nonprofit organization incurred \$2,838 in costs for the printing of 245,000 flyers that the department will include with each IRS form sent to UI recipients. MDL further advises it will implement the bill in a similar manner and can absorb, with existing budgeted resources, the costs of issuing any additional notifications.

General fund revenues may decrease beginning as early as fiscal 2023 due to additional State earned income and poverty level tax credit claims. The amount of the revenue loss, which cannot be precisely estimated, depends on the additional amount of claims that result from the notifications.

**Local Fiscal Effect:** Local revenues may decrease beginning as early as fiscal 2023 due to additional earned income and poverty level tax credit claims. Montgomery County expenditures for its earned income credit program may increase beginning as early as fiscal 2024.

## **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Maryland Department of Labor; Comptroller's Office;  
Department of Legislative Services

**Fiscal Note History:** First Reader - February 6, 2022  
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