



THE MARYLAND HOUSE OF DELEGATES  
ANNAPOLIS, MARYLAND 21401

**Testimony in Support of HB 252**  
**Income Tax - Return Preparation Assistance Program for Low-Income Families**

This legislation aims to improve participation in the Earned Income Tax Credit by identifying eligible Marylanders who do not receive the credit and sending them a pre-filled out tax return.

**Eligible Marylanders Are Left Behind**

The Earned Income Tax Credit (EITC) is considered to be America's largest and most successful anti-poverty program. However, 25% of Marylanders who are eligible for the EITC don't claim the credit—a number that has been increasing in recent years.<sup>1</sup> Moreover, Maryland fairs worse than the national average in terms of our EITC participation rate. This leaves an estimated \$304 million in federal credits unclaimed by Maryland taxpayers and in turn unspent in Maryland's economy.<sup>2</sup>

Given the economic and societal benefits of residents spending their refunds on rent, food, car repairs, and other goods and services,<sup>3</sup> it is worthwhile for Maryland to increase the utilization of the EITC by eligible taxpayers.

Researchers have concluded that the following groups of people are less likely to claim and receive their EITC refund:<sup>4</sup>

- Self-employed
- Receiving disability income or have children with disabilities
- Without a qualifying child
- Living in rural areas
- Not proficient in English
- Grandparents raising grandchildren
- Recently divorced, unemployed, or experienced other changes to their marital, financial, or parental status.

<sup>1</sup> IRS and American Community Survey data.

<sup>2</sup> IRS return data, TY 2019.

<https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-eitc>

<sup>3</sup> "The Role of Earned Income Tax Credit in the Budgets of Low-Income Families." National Bureau of Economic Research, 2012.

<sup>4</sup> U.S. House Committee on Budget,

<https://budget.house.gov/publications/opportunities-improve-earned-income-tax-credit>

## Causes of Unclaimed EITC

There has been much research done by social scientists and economists to determine the root causes of people's failure to claim the EITC. Numerous studies and real world government programs have tested the idea that a lack of awareness or information about the EITC is what keeps people from claiming it.<sup>5,6,7,8</sup> These studies, however, have repeatedly found that reminders and information alone do not significantly get more people to file their taxes and/or claim the EITC.

Rather, there are more complex barriers that prevent low-income workers from claiming the credit. About two-thirds of EITC eligible taxpayers don't file income tax returns because they aren't required to due to their low income.<sup>9</sup> So for these residents to claim the EITC, they would need to file a tax return. The complexity and cost of filing a tax return using professional tax preparation services is perceived as too high of a barrier by these residents for simple outreach or information campaigns to work.

Instead, numerous academic studies have identified a much more successful approach: sending completed tax forms to residents who are likely to be eligible for the EITC.<sup>10,11,12,13,14,15,16</sup> Much of the information needed to complete a tax return is already available to the IRS and Maryland Comptroller's Office, such as W-2 forms from employers.<sup>17</sup> Using that information, the state could prepare tax returns for EITC eligible residents.

Since 2007, New York City has run a program that uses data from the IRS to identify residents who are eligible for the EITC but didn't claim it in prior tax years. The city government completes a pre-filled out amended tax return and mails it to the identified residents, who simply have to review the amended return, sign it, and return it to receive their EITC refund. In the first

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<sup>5</sup> "Can Nudges Increase Take-up of the EITC?: Evidence from Multiple Field Experiments" National Bureau of Economic Research, 2020.

<sup>6</sup> "Tax Benefit Complexity and Take-Up: Lessons from the Earned Income Tax Credit" Stanford Law, 2019.

<sup>7</sup> U.S. Treasury Inspector General for Tax Administration Office of Inspections and Evaluations Report 2018-IE-R004, 2018.

<sup>8</sup> "Reminders & Recidivism: Evidence from Tax Filing & EITC Participation among Low-Income Nonfilers," National Bureau of Economic Research, 2016.

<sup>9</sup> "Earned Income Tax Credit Participation Rate for Tax Year 2005" IRS, 2009.

<sup>10</sup> "States Can Adopt or Expand Earned Income Tax Credits to Build Equitable, Inclusive Communities and Economies" CBPP, 2021.

<sup>11</sup> "Strategies for Increasing Uptake of the Earned Income Tax Credit" Robertson et al, 2020.

<sup>12</sup> "The Earned Income and Child Tax Credits: The Federal Framework, Reform Efforts to Date, and Options for Future Change" Rockefeller Foundation, 2020.

<sup>13</sup> "Less Cheating? The Effects of Prefilled Forms on Compliance Behavior" Fochmann et al, 2018.

<sup>14</sup> "Prefilled Income Tax Returns and Tax Compliance: Evidence From a Natural Experiment" Kotakorpi and Laamanen, 2016.

<sup>15</sup> "Tax Systems" Slemrod & Gillitzer, 2013. "Using Technology to Simplify Individual Tax Filing" Bankman, 2008.

<sup>16</sup> "The Simple Return: Reducing America's Tax Burden Through Return-Free Filing" Goolsbee, 2006

<sup>17</sup> Comptroller also receives 1099-MISC, 1099-B, 1099-DIV, 1099-G, 1099-INT, 1099-NEC, 1099-R, 1099-S, and W-2G information returns from employers and through an agreement with the IRS, with ample data on interest, real estate sales, freelance wages, pensions, IRA distributions, rental income, farm income, gambling winnings, alimony, and other sources of income.

two years of the program, more than 22,000 residents received EITC refunds totaling nearly \$13 million.<sup>18</sup> The program was expanded statewide in New York in 2009.

### **Maryland Is Poised to Do This**

In 2016, in response to directives from the General Assembly, Deputy Comptroller Sharonne R. Bonardi noted that the Comptroller's Office is well positioned to do targeted outreach to EITC non-claimants.<sup>19</sup> "This Office, using its internal data scientists and with the assistance of external contractors, could supplement DHR's [Department of Human Resources] active engagement by using the extensive taxpayer data located in its data warehouse in conjunction with data collected by other State and federal agencies to create various matching programs based on the EIC [Earned Income Tax Credit] non-participatory factors mentioned above. Additionally, this Office could assist in the notification process with the case management system, which can communicate with individuals by mail in multiple languages."

In 2009, Maryland did a pilot version of the outreach proposed in this bill. The Comptroller's Office requested data from the IRS on Maryland residents who received the federal EITC but did not claim it on their state return that year. The IRS identified 5,353 potentially eligible Maryland taxpayers. The Comptroller's Office reviewed these returns and subsequently sent out 2,339 refund checks totalling \$572,746.<sup>20</sup>

### **What This Bill Does**

This bill proposes a two pronged approach to improve participation in the EITC: 1) for people who don't currently file tax returns and 2) for people who file their taxes but don't claim the EITC.

The bill:

- 1) Requires the Comptroller to identify Maryland residents who appear to qualify for the EITC but who didn't file taxes the previous tax year, likely because of their very low income. The Comptroller's Office would then prepare and send these residents a pre-filled tax return for them to review, sign, and return. The residents would then receive their EITC refunds.
- 2) Requires the Comptroller to identify Maryland residents who filed their taxes for the most recent tax filing and appear to qualify for the EITC, but who didn't claim the EITC. The Comptroller's Office would then prepare and send these residents pre-filled amended returns for them to review, sign, and return. The residents would then receive their EITC refunds.

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<sup>18</sup> [http://clkrep.lacity.org/onlinedocs/2009/09-2750\\_misc\\_11-17-09.pdf](http://clkrep.lacity.org/onlinedocs/2009/09-2750_misc_11-17-09.pdf)

<sup>19</sup> [http://dlslibrary.state.md.us/publications/JCR/2016/2016\\_30.pdf](http://dlslibrary.state.md.us/publications/JCR/2016/2016_30.pdf)

<sup>20</sup> [https://www.marylandtaxes.com/pros/revenews/files/2009\\_winter.pdf](https://www.marylandtaxes.com/pros/revenews/files/2009_winter.pdf)