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Increasing Reach of Earned Income Tax Credit Will Benefit Maryland Families and our Economy

Position Statement Supporting House Bill 252

Given before the House Ways and Means Committee

The federal and state Earned Income Tax Credits (EITC) help hundreds of thousands of working Marylanders who struggle to get by due to low wages and also boost the economy. However, many eligible Marylanders don't receive the benefits of this effective anti-poverty tool even though they are eligible. **The Maryland Center on Economic Policy supports House Bill 252 because it provides a simple, innovative approach to ensure more eligible Marylanders receive the state EITC.**

Nearly 390,000 Maryland families received an income boost from the federal EITC last year. However, about 1 in 4 who are eligible don't receive it, according to IRS data¹. The number of eligible Marylanders who aren't receiving the credit has gradually increased over the last decade, suggesting that the current outreach, education, and free tax preparation services alone aren't enough. People with very low incomes often don't earn enough to be required to file a tax return every year and may not be aware that they are missing out on refundable credits.

HB 252 would require the Comptroller's office to use available income and tax data from the IRS and state tax systems to identify people who appear to be eligible for the EITC but either did not file a state tax return or did not claim the EITC on their state return. The office would then send a notification to those individuals, including a pre-filled out tax return or amended tax return form, so the recipient can simply review the information, sign, and return the documents. New York City has had a similar program since 2006, working in partnership with the IRS, that has helped residents access millions of dollars in federal, state, and city tax credits each year².

It's important to ensure all eligible Marylanders are receiving the EITC because it can have such a powerful impact on people's lives. Nationwide about 5.7 million people are lifted out of poverty each year because of the EITC.³ Research shows that reducing poverty through the EITC, especially for children, has significant long-term benefits, such as experiencing better health, doing better in school, and earning higher incomes later in life. It is also good for our economy, as families living paycheck-to-paycheck who receive the EITC are likely to spend their refunds on immediate needs like car repairs, clothing, or school supplies. Every dollar invested in the EITC generates \$1.23 of economic activity, according to one estimate.⁴

Further, this is a critical moment to take this approach because both Congress and the General Assembly passed legislation expanding the EITC in 2021, meaning many people are eligible to claim the credit for the first time and may not be aware of the recent changes. An outreach program that makes it simple for Marylanders to access this valuable credit would be a powerful tool for increasing economic security and access to opportunity.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on House Bill 252.

Equity Impact Analysis: House Bill 252

Bill summary

House Bill 252 increases the power of Maryland's Earned Income Tax Credit by ensuring more people who are eligible for the credit receive it. It does this by creating a program in the Comptroller's Office to identify people who are likely eligible for the EITC but did not file a tax return or did not claim the EITC on their return and send prepared tax forms to those individuals to review, sign and return.

Background

About 1 in 4 Marylanders who were eligible for the federal EITC did not claim it in 2018, the most recent year for which IRS data are available. Maryland's EITC participation rate has been slowly declining, from nearly 80% in tax year 2011 to around 75% in tax years 2017 and 2018. Similar data are not available for the state level, but Maryland has taken positive steps to expand eligibility for the state EITC in recent years, meaning there are some people who can receive the state credit but not the federal one.

Equity Implications

- 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.⁵

Impact

House Bill 252 would likely **improve racial and economic equity** in Maryland.

¹ IRS, EITC Participation Rates By State For Tax Years 2011 through 2018." <https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states>

² Testimony of Assistant Commissioner Sam Miller, New York City Department of Finance, on the Earned Income Tax Credit Mailing Project, November 2009. http://clkrep.lacity.org/onlinedocs/2009/09-2750_misc_11-17-09.pdf

³ Center on Budget and Policy Priorities, "The Earned Income Tax Credit: A Powerful Tool to Fight Poverty and Reward Work in Maryland," 2019. https://www.cbpp-multimedia.org/1-25-19tax/1-25-19tax_eitc_maryland_statewide.pdf

⁴ Mark Zandi, "An Analysis of the Obama Jobs Plan." Moody's Analytics, Sept. 9, 2011. <https://www.economy.com/dismal/analysis/free/224641>

⁵ 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>