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Increasing Reach of Working Family Tax Credits Will Benefit Maryland Families and our Economy

Position Statement Supporting Senate Bill 676

Given before the Senate Budget and Taxation Committee

The federal and state Earned Income Tax Credits (EITC) and Child Tax Credits (CTC) help hundreds of thousands of working Marylanders who struggle to get by due to low wages and also boost the economy. However, many Marylanders don't receive the benefits of these effective anti-poverty tools even though they are eligible. **The Maryland Center on Economic Policy supports Senate Bill 676 because it will expand tax preparation assistance for people who are potentially eligible for these credits, which can help eligible Marylanders receive the state and federal EITC and CTC.**

Nearly 359,000 Maryland families received an income boost from the federal EITC last year. However, about one in four who are eligible don't receive it, according to IRS data.¹ 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.

Free tax preparation services for low- and moderate-income households are one of the important tools for ensuring that Maryland families receive the tax credits they are eligible for. Senate Bill 676 would significantly expand the capacity of the state's free tax preparation programs across the state. Expanding access to free services with a qualified tax preparer also helps serve as an alternative to predatory private preparers that often target low-income communities and either take a large portion of taxpayers' refunds as payment or, in some cases, prepare erroneous or fraudulent returns without the taxpayer's knowledge.

It is important to ensure all eligible Marylanders are receiving the EITC and CTC because it can have such a powerful impact on people's lives. Nationwide nearly 11 million people are lifted out of poverty each year because of the federal EITC and CTC, with Maryland residents seeing even further benefits due to our state credits.² Research shows that reducing poverty through these tax credits, 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 are likely to spend their refunds on immediate needs like car repairs, clothing, or school supplies, which boosts sales at local businesses.

Further, this is a critical moment to expand services because the General Assembly passed legislation permanently expanding the EITC in 2023 and Congress is currently close to passing an expanded Child Tax Credit. More people may be eligible to claim the credit and may not be aware of the recent changes. Expanding uptake of these valuable credits among people who are likely to be eligible would help increase economic security and access to opportunity.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee make a favorable report on Senate Bill 676.

Equity Impact Analysis: Senate Bill 676

Bill summary

Senate Bill 676 substantially increases funding for free tax preparation services for low- and moderate-income households across the state.

Background

About 27% of Marylanders who were eligible for the federal EITC did not claim it in 2020, the most recent year for which IRS data are available. Maryland's EITC participation rate has slightly declined, from nearly 80% in tax year 2011 to around 76% in tax years 2018 and 2019 and 73% in tax year 2020. Similar data are not available for the Child Tax Credit or the state level credits. Maryland has taken positive steps to expand eligibility for the state EITC and create a modest state CTC 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 and Maryland's state CTC. While state and federal tax credits 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.³

Impact

Senate Bill 676 would likely **improve racial and economic equity** in Maryland.

¹ IRS, EITC Participation Rates By State For Tax Years 2013 through 2020, <https://www.etc.irs.gov/etc-central/participation-rate-by-state/etc-participation-rate-by-states>

² Center on Budget and Policy Priorities, "Policy Basics: The Child Tax Credit," 2022. <https://www.cbpp.org/research/policy-basics-the-child-tax-credit>

³ 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>