MDCEP
MARYLAND CENTER ON ECONOMIC POLICY
FEBRUARY 4, 2014

Position Statement Supporting House Bill 198

Given before the House Ways and Means Committee

Increasing Maryland's Refundable EIC Would Reduce Inequality

The Maryland Center on Economic Policy supports House Bill 198, expanding the state refundable earned income credit (REIC) to 30 percent over five years.

Maryland was the first state to create an earned income credit in 1987, and introduced the refundable tax credit in 1998. The General Assembly has regularly increased the refundable share of the earned income credit over the past sixteen years, most recently in 2007. For years, the state has recognized the need for the refundable earned income credit and its effectiveness assisting the working poor and near-poor, especially those with dependent children. The REIC works because it supplements low-wage incomes, encouraging work and lifting families out of poverty.

But at the same time, household costs and the (non-income) tax responsibilities of lower income households have continued to grow. For example, last year's increase in the fuel tax—which we supported and which was vitally important to the long-term health of Maryland's transportation infrastructure—disproportionately impacted those at the bottom of the income distribution.

It is no surprise that state tax systems tend to be regressive, levying a larger percentage of the incomes of low-income taxpayers than of higher-income taxpayers. Over the years, the General Assembly has introduced policies that make our tax system less regressive than most other states. Yet the bottom 20 percent of non-elderly Maryland taxpayers still pay 9.7 percent of their income toward state and local taxes, compared to just 6.4 percent among the top 1 percent.[i] If Maryland is to maintain the progress it has made in reducing poverty the REIC should be expanded.

Finally, some have offered a false choice between the earned income credit and the minimum wage. On the contrary, Maryland needs both.[ii] The minimum wage ensures that low-wage employers do their part to raise their employees out of poverty. The EIC subsidizes those workers who are still left behind. Both employers and state government have a role to play, if for no other reason than that the cost of only relying on the earned income credit to support the working poor would either empty the state's coffers at an alarming rate, or dramatically increase poverty.

The Maryland Center on Economic Policy therefore respectfully requests that the Ways and Means Committee make a favorable report on House Bill 198.

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[i] January 2013. *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. Institute on Taxation & Economic Policy. Available at: http://www.itep.org/pdf/whopaysreport.pdf

[ii] January 4, 2013. *Greg Mankiw Offers a False Choice re Minimum Wage or EITC*. Jared Bernstein. Available at: http://jaredbernsteinblog.com/greg-mankiw-offers-a-false-choice-re-minimum-wage-or-eitc/