

Tax credit lifts 400,000 Maryland workers out of poverty, but over 100,000 eligible workers did not apply.

The Earned Income Tax Credit Increases Work, Decreases Poverty

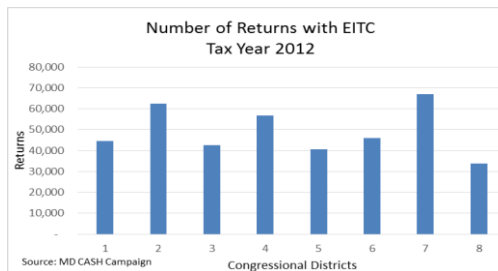
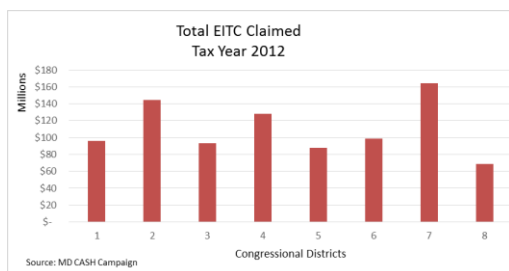
The Earned Income Tax Credit (EITC), which is available at the federal and state level in Maryland, helps keep working families above the poverty line. It does so by making low-wage employment more viable, allowing workers—especially those with dependent children—whose earned income meets certain eligibility requirements to claim a tax credit. A recent evaluation by the Maryland Department of Legislative Services found that the Maryland EITC has been effective in raising workers out of poverty as well as providing ancillary benefits like improving the economy and the health and education of children.¹ Maryland lawmakers can make the most of both the federal and state credits by taking steps to ensure that eligible families and individuals claim the credit and expanding the credit for workers without qualifying children.

The Federal and Maryland EITCs Work Together for Working Marylanders

The federal EITC began in 1975 and has served to encourage work in spite of low wages, to offset the substantial payroll taxes that working families and individuals pay, and to reduce poverty for millions. Maryland began providing an EITC equal to 50 percent of the federal EITC in 1987. Lawmakers took the crucial step of establishing a refundable state EITC in 1998.² Set at 20 percent of the federal credit, the refundable credit (REIC), meant that families could claim a refund if the amount of their credit exceeded the income taxes they owed. Just as the federal credit offsets payroll taxes, the REIC offsets sales and other taxes that eat up a substantial share of income for those earning the least. The REIC provides a major boost to low-income workers. They keep more of what they earn to pay for unexpected home or car repairs, childcare, bills, and transportation – all of which helps keep them on the job. The REIC provides the more tangible benefit, by directly providing cash resources to workers.

Maryland lawmakers have approved increases in the value of the REIC twice:³ upping it to 25 percent of the federal credit in 2007 and enacting a phased-in increase to 28 percent in 2014.

In 2012, 412,000 Marylanders claimed the federal EITC, helping families and boosting Maryland’s economy by over \$893 million. However, an estimated 24 percent⁴ of eligible Marylanders did not claim the federal credit, leaving credits worth an estimated \$237 million unclaimed. The Maryland Refundable EITC was an additional \$241 million, but an estimated \$24.5 million was unclaimed. Areas with higher levels of poverty—like Somerset County or Baltimore City—would have particularly benefited if more qualified families had claimed credits.



¹ Department of Legislative Services, Evaluation of the Maryland Earned Income Tax Credit (2014).

http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/WEB-Draft-Earned-Income-Report.pdf

² Department of Legislative Services, Fiscal and Policy Note 2014, Income Tax - Earned Income Credit - Refundable Amount, http://mgaleg.maryland.gov/2014rs/fnotes/bil_0008/hb0198.pdf

³ Ibid

⁴ <http://www.eitc.irs.gov/EITC-Central/Participation-Rate>



Policy Recommendations

Enforce the Earned Income Credit Information Act

In 2011, Maryland started requiring all employers to notify employees of their potential eligibility for the federal or state EITC. However, the state has been lax in making sure that employers are following the law, which could be one reason for lagging credit claims. Maryland should enforce the Earned Income Credit Information Act to increase the claimed credits.

Use existing state outreach channels to increase awareness of the EITC.

There is no single state agency tasked with increasing uptake or promoting public awareness of the EITC. However, the State contacts taxpayers and residents in countless ways throughout the year. Using this outreach material to make more Marylanders aware of the EITC could boost participation in the program. For several years, Maryland CASH Campaign has paid for envelope stuffers to include information about the EITC in the annual mailing of 1099-G forms for Marylanders who claimed unemployment insurance. This mailing goes to over 220,000 Marylanders each year.

Maximize the value of the EITC by investing in free tax preparation.

According to IRS TY2012 data, nearly 53% of EITC recipient use a paid tax preparer to file their return. Given an average return cost of \$142, an estimated \$3 million of EITC is lost by recipients. There are a growing number of free tax preparation sites, operated under the IRS' Volunteer Income Tax Assistance program, which provide services to households making less than \$53,000 annually. The returns are prepared by staff and volunteers who undergo annual training and must pass an annual exam, administered by the IRS. In TY2012, only 2% of EITC filers used a volunteer tax preparer. The sites are primarily funded by private foundations, with a small amount of federal money through the IRS and Community Services Block Grant. Demand for appointments currently outweighs supply and more funding is needed for staffing, marketing, and supplies. VITA sites also play a critical role in connecting EITC recipients with other services that will increase their financial security including access to bank accounts, financial education and coaching, and benefits screening.

Lower the eligibility age and increase maximum credit for workers without children.

Workers without dependent children can only claim the state or federal EITC if they are between the ages of 25 and 64. The maximum federal credit for this group in tax year 2013 was \$487. For unmarried individuals ages 25 and older and without dependent children, the value of the EITC starts phasing out once they earn \$8,000, which is equivalent to 55% of full-time work at the 2014 minimum wage of \$7.25 per hour. In fact, an unmarried, full-time minimum wage worker over 25 without dependent children earned too much to claim the credit in tax year 2013. Income taxes can actually push these low-income workers into poverty.⁵

Lawmakers should help childless workers by increasing the income threshold for the Maryland EITC and REITC, and by increasing the maximum state credit for these workers.

To learn more, contact Robin McKinney, Maryland CASH Campaign (robin@mdcash.org) or the Maryland Center on Economic Policy (mdcep@mdeconomy.org).

⁵ Marr, Chuck and Huang, Chye-Ching. "Strengthening the EITC for Childless workers would promote work and reduce poverty." July 2014, Retrieved from <http://www.cbpp.org/files/7-15-13tax.pdf>



Federal and State EITC amounts by County

County Name	TY2012 Average Federal EITC	TY2012 Total Maryland EITC	TY2012 Federal EITC Amount*	Estimated Amount of Federal EITC Unclaimed
ALLEGANY	\$2,048	\$3,216,261	\$11,745,333	\$3,122,468
ANNE ARUNDEL	\$2,054	\$15,550,261	\$56,465,136	\$15,008,687
BALTIMORE	\$2,167	\$34,357,953	\$121,992,679	\$32,428,125
BALTIMORE (CITY)	\$2,444	\$47,875,688	\$188,651,999	\$50,147,337
CALVERT	\$2,102	\$2,468,722	\$9,275,426	\$2,466,642
CAROLINE	\$2,272	\$1,857,842	\$6,787,060	\$1,803,136
CARROLL	\$1,900	\$3,633,516	\$12,670,650	\$3,367,189
CECIL	\$2,152	\$3,861,034	\$14,193,467	\$3,772,226
CHARLES	\$2,158	\$5,103,467	\$19,159,246	\$5,093,604
DORCHESTER	\$2,271	\$2,303,014	\$8,241,524	\$2,190,399
FREDERICK	\$1,999	\$6,398,781	\$23,461,938	\$6,236,158
GARRETT	\$2,024	\$1,339,773	\$4,500,532	\$1,195,615
HARFORD	\$2,086	\$7,328,976	\$27,270,275	\$7,248,926
HOWARD	\$2,033	\$6,686,222	\$24,968,953	\$6,636,998
KENT	\$2,081	\$726,570	\$3,160,505	\$838,587
MONTGOMERY	\$2,093	\$31,555,883	\$116,402,083	\$30,942,598
PRINCE GEORGE'S	\$2,210	\$43,810,147	\$160,069,706	\$42,550,232
QUEEN ANNE'S	\$1,998	\$1,315,617	\$4,051,619	\$1,075,379
ST. MARY'S	\$2,202	\$3,336,443	\$13,070,003	\$3,474,532
SOMERSET	\$2,273	\$1,421,832	\$4,960,338	\$1,319,362
TALBOT	\$2,036	\$1,454,258	\$5,199,559	\$1,381,199
WASHINGTON	\$2,125	\$6,777,221	\$24,708,082	\$6,568,681
WICOMICO	\$2,294	\$6,168,212	\$22,769,685	\$6,053,650
WORCESTER	\$2,073	\$2,410,977	\$9,455,879	\$2,512,751
TOTAL	\$2,216	\$240,958,670	\$893,231,677	\$237,434,482

Additional Total State unclaimed credit: **\$24.5 Million⁺**

*Internal Revenue Service Tax Year 2012 Data as of June 30, 2014, analyzed by Maryland CASH Campaign

+ Department of Legislative Services, "Evaluation of the Maryland Earned Income Tax Credit", November 2014