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Expanding Maryland's Earned Income Tax Credit Will Benefit Families and the Economy

*Position Statement Supporting Senate Bill 294
Given before the Senate Budget and Taxation Committee*

The Earned Income Tax Credit is a common-sense tax break that helps working people who struggle to get by on low wages and also boosts the economy. Expanding the credit in Maryland would enable low-wage workers to keep more of what they earn, which they will spend at local businesses. For these reasons, the Maryland Center on Economic Policy supports Senate Bill 294.

Maryland's current EITC offers an essential hand up for thousands of working families but it leaves out thousands of other low-wage workers. Young people just getting started in the workforce, workers without children and those who don't claim a child as a dependent get little or no benefit from the current credit, even if they have very low incomes. In fact, many people who work for very low wages go deeper into poverty because they don't qualify for a meaningful tax break.¹

Expanding the credit would help change that for more than 355,000 Marylanders who are now struggling to get by on low wages, most of whom do not currently receive the tax credit. They would receive an average annual tax credit of about \$300. The lowest-income Marylanders now pay about 9.7 percent of their income in state and local taxes – a much greater share of their income than the wealthiest Marylanders.² Expanding the EITC would help correct this imbalance.

The tax credit would also benefit Maryland businesses, as the lower tax bills mean that recipients have more to spend on necessities like groceries and car repairs. Researchers estimate that in many cases, the federal credit creates local economic impacts equivalent to at least twice the amount of EITC dollars received.³ A 2004 study of Maryland's EITC estimated that it added \$16 million to the economy in Baltimore City alone, creating 167 jobs and generating \$4.9 million in wages.⁴

The federal EITC was highly successful in the 1990s at helping more single mothers start working and continue to work, and many researchers believe that expanding the credit would have a similarly positive effect for young men and women with lower levels of

education, a segment of the population that is seeing lower levels of employment.⁵ That's because the credit increases with each dollar people with very low incomes earn, up to a point, and then phases out when a worker reaches a modest income level.

Of the several proposals under consideration this year that would strengthen Maryland's EITC, only Senate Bill 294 would help the younger workers and other low-wage workers who don't currently receive the benefit. Other proposals would provide a small increase in the amount of the credit for current recipients, which would provide valuable support to those families and their communities.

However, the other bills do nothing to address those workers who are taxed deeper into poverty because they either receive a very small benefit or no benefit at all. Senate Bill 294 would provide the additional benefits to current recipients and also correct the glaring deficiency in the current state EITC.

The Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee make a favorable report on Senate Bill 294.

¹ Chuck Marr and Chy-Ching Huang, "Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty." Center on Budget and Policy Priorities. February 20, 2015. <http://www.cbpp.org/research/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce-poverty>

² Mark Scott, "Maryland's Poor Taxed More Than Wealthy." Maryland Center on Economic Policy. March 24, 2015. <http://www.mdeconomy.org/marylands-poor-taxed-more-than-wealthy-communities-of-color-feel-biggest-pinch/>

³ Natalie Holmes and Alan Berube, "The Earned Income Tax Credit and Economic Stability." The Brookings Institution. November 20, 2015. <http://www.brookings.edu/research/articles/2015/11/20-earned-income-tax-credit-community-economic-stability-holmes-berube>

⁴ "The Importance of the Earned Income Tax Credit and Its Economic Effects in Baltimore City." The Jacob France Institute, University of Baltimore. June 2004. <https://www.ubalt.edu/jfi/jfi/reports/EITC-rept.pdf>

⁵ Chuck Marr et al. "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds." Center on Budget and Policy Priorities. October 1, 2015. <http://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>