MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

MARCH 29, 2016

Expanding Maryland's Earned Income Tax Credit Doesn't Require Costly Giveaways to the Wealthy

Position Statement Supporting Senate Bill 840 with Amendments Given before the House Ways and Means 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 355,000 low-wage workers to keep more of what they earn, which they will spend at local businesses. The Maryland Center on Economic Policy supports the portion of Senate Bill 840 that expands the state EITC to help young people just getting started in the workforce and those who don't claim a child as a dependent.

However, the Senate version of the bill also includes unnecessary, damaging amendments that would give the largest tax breaks to those who need it the least. In doing so, it would take away significant resources that Maryland needs to maintain good schools, safe communities, a well-functioning transportation network, and public investments in a strong economy and broad prosperity. For these reasons, MDCEP asks the House Ways and Means Committee to amend the bill to remove these unrelated tax breaks.

The Senate amendments include two main provisions: cutting income tax rates for Marylanders with incomes above $100,000 ($150,000 for joint filers) and an increase in the personal exemption for people with incomes between $60,000 and $100,000. The middle-income tax break amounts to only $16 per person a year, on average, at a cost of $40 million per year to the state when fully phased in.

Cutting the tax rates for wealthy Marylanders will provide the most significant benefit to the top 1 percent of households. People with incomes in excess of $520,000 per year would see their annual tax bills reduced by an average of $1,734. That is more than four times the benefit any other income group would see.

Further, these tax breaks come with a price tag that would erode the public services we all rely on to maintain a good quality of life and a strong economy. The middle- and upper-income tax breaks added to the EITC bill will cost $165 million per year when fully phased in and $510 million over five years.

On the other hand, expanding the EITC would benefit Maryland businesses, as the lower tax bills mean that recipients have more to spend on necessities like groceries and car repairs. Research shows that money invested in the EITC goes directly into the local economy. Researchers estimate that, in many cases, the federal credit creates local economic impacts equivalent to at least twice the amount of EITC dollars received. 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.

The same does not hold true when giving tax breaks to the wealthiest Marylanders. They already can already afford to buy everything they need. They are unlikely to spend more in response to a windfall of almost $2,000. Instead, they are far more likely to put the cash into savings and investments so the proposal is unlikely to generate much economic activity.

Maryland's state and local tax system already asks the most of those least able to pay, measured as a share of their incomes. This limits the ability of thousands of families to climb the economic ladder. The lowest-income Marylanders now pay about 9.7 percent of their income in state and local taxes. The wealthiest pay an average of 6.7 percent. Expanding the EITC would help correct this imbalance. But pairing EITC expansion with tax breaks for people with incomes over $100,000 negates any possible improvements in the equity of our tax system.

Maryland's current EITC offers an essential hand up for thousands of working families. But it leaves out thousands of other low-wage workers and should be expanded. 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] Strengthening the credit would help change that for up to 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 $375.

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.[2] 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.

Expanding the EITC without the costly giveaways to millionaires and a token nod to the middle class would be the best option for Maryland families and the state's economy.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on Senate Bill 840 after amending it to remove the changes to the income tax rate for people with incomes above $100,000 and the increase in the personal exemption for people with incomes between $60,000 and $100,000.

[1] Chuck Marr and Chye-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] 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

The General Assembly is considering an income tax proposal that would pair much-needed help for working Marylanders struggling to pay their bills with an unnecessary, costly tax break for those who need it the least – people making over $520,000 a year, the top 1 percent of taxpayers.

Here are the main provisions:

- Expand the Earned Income Tax Credit for younger workers and workers without dependents. This will increase the average benefit for up to 355,000 low-income workers by about $300.
- For individual taxpayers making between $60,000 to $100,000 (joint filers making less than $150,000) increase the standard exemption by $200.
- For individuals making more than $100,000 (joint filers making more than $150,000) drop the tax rates by at least an eighth of a percentage point.
- Cut the top tax rate to 5.6% from the current 5.75%; this only affects individual filers with incomes over $250,000 ($300,000 for joint filers).

The middle- and upper-income tax breaks added to the EITC bill would cost $165 million per year when fully phased in and $510 million over five years. Adopting these tax cuts would take away significant resources that Maryland needs to maintain good schools, safe communities, a well-functioning transportation network, and other services that we all rely on.

Maryland's state and local tax system already asks the most of those least able to pay, limiting the ability of thousands of families to climb the income ladder. The poorest Marylanders pay a much higher percentage of their incomes in state and local taxes than those at the top. This situation is especially harmful to women and people of color, because they are more likely to have lower incomes. These proposed tax changes would increase this disparity.

IMPACT OF TOTAL PACKAGE ONCE FULLY IMPLEMENTED

Taxpayer Income Categories	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Taxpayer Income Range	Less than $25,000	$25,000 to $47,000	$47,000 to $74,000	$74,000 to $121,000	$121,000 to $234,000	$234,000 to $520,000	$520,000 or more
Average Taxpayer Income	$14,000	$35,000	$59,000	$95,000	$162,000	$334,000	$1.6 million
Share of Total Tax Cut	18%	20%	7%	7%	6%	15%	27%
% of income currently paid in state and local taxes	9.7%	9.5%	10.3%	9.7%	8.5%	8.8%	6.7%
% of income paid in state and local taxes under this plan	9.3%	9.3%	10.3%	9.7%	8.5%	8.7%	6.6%
Average annual benefit	$58	$62	$22	$21	$25	$239	$1,734

Additional details:

- When fully phased in, those earning less than $25,000 per year would see an average yearly tax savings of about $58. The wealthiest 1% Marylanders, those making more than $520,000 per year, would see their taxes go down by an average of $1,734.
- Of the $232 million per year that would go out in tax breaks, 48 percent would go to the most affluent 20 percent of Marylanders, those making more than $120,000 per year. Most of that amount, 27 percent of the total benefit, would go to the top 1 percent.