



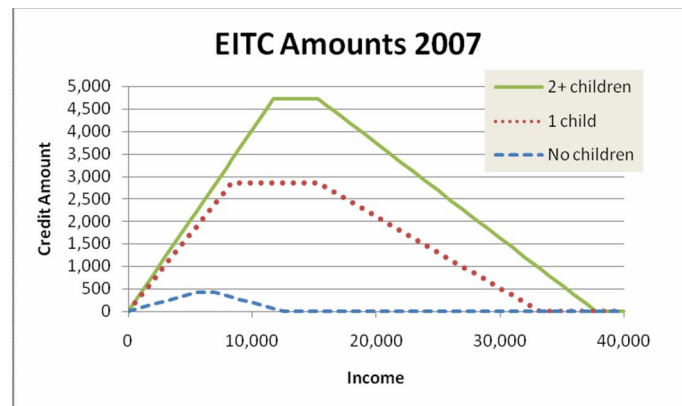
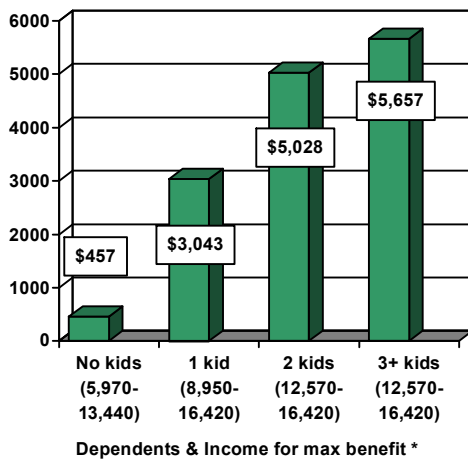
MB&TPI FACT SHEET

THE IMPORTANCE OF THE EARNED INCOME TAX CREDIT

MARCH 18, 2009

- The Earned Income Tax Credit (EITC) is commonly referred to as America’s biggest poverty-fighting program, rewards work, and is bigger than food stamps, Medicaid, or temporary cash assistance programs. The EITC adds to – not replaces – other poverty-fighting programs**

The EITC reduces the tax liability of low-income working households, particularly households with minor children. It is refundable, so that if the calculation of the credit brings a household's tax liability below zero, they receive a net payment from the government. In tax year 2006, the EITC provided \$44 billion in total to 23 million families in the United States. There were 353,000 recipients of the federal EITC in Maryland, for a total of \$643 million, and an average EITC of \$1,800. Married couples with two or more children earning less than \$42,000 annually are generally eligible for the credit; whereas, childless adults earning less than approximately \$13,000 (or married filing jointly and earning less than \$16,000) are generally eligible. The EITC has a “phase-in range” where it increases with increasing earned income. Upon reaching a maximum level, the value of the credit plateaus. In this range, the credit amount does not change. At a higher income level, the credit begins its phase-out range. In this range, increasing incomes result in the value of the credit diminishing, until it reaches zero (see chart “EITC Amounts 2007” below).



- Maryland’s State Earned Income Credit (EIC) and EIC proposals being considered in the 2009 Session of the Maryland General Assembly**

In addition to the federal EITC, 23 states and the District of Columbia have instituted their own EITC’s. Marylanders, who claim the federal EITC on their tax return, may be entitled to the state EIC. The nonrefundable portion is equal to 50% of the federal tax credit; whereas, the

refundable portion is 25% of the federal credit. The Maryland earned income tax credit will either reduce or eliminate the amount of the state and local income tax that filers owe. There were 345,000 recipients of the state EIC in tax year 2007 (totaling \$172 million). Currently, there are two legislative proposals in Annapolis. HB 1061- *Earned Income Credit Information Act* requires an employer to provide specified notification to an employee who may be eligible for the State earned income tax credit. This proposal does not directly affect state and local finances or operations. The small business effect is minimal, according to the Department of Legislative Services. HB 896 – *Income Tax - Earned Income Tax Credit - Noncustodial Parent* allows specified noncustodial parents making child support payments to claim an income tax credit in a specified amount against the State income tax for earned income under specified circumstances. Potentially, upwards of 11,200 noncustodial parents are estimated to meet the eligibility requirements of the EIC. This proposal costs \$1.1 million in FY 2010 (only 8% of the entire general fund) based upon March 2009 Board of Revenue Estimates.

- **The American Recovery and Reinvestment Act's (ARRA) *Making Work Pay Credit* helps families with children and low or moderate incomes receive additional help through expansions in the Earned Income Tax Credit and Child Tax Credit.**

-Increase in EITC-

The federal stimulus or ARRA increases the EITC rate for families with three or more children from 40-45% of qualifying earnings in 2009-2010. The maximum credit for such families increases by \$623 (at \$5,657). Nevertheless, it would phase-out income levels for all married couples filing jointly. According to the Tax Policy Center, the credit goes to families with relatively low income—no more than \$43,415—for whom having an additional child could impose significant demands on scarce resources.

-Making Work Pay Credit-

The Center on Budget & Policy Priorities estimates that 2,169,000 Maryland taxpayers will benefit from the Making Work Pay Credit. The Making Work Pay Credit expands the EITC and Child Tax Credit (CTC). It provides tax relief of up to \$400 per worker. The credit phases in at the same rate as Social Security taxes and is available to all workers (except those claimed as another taxpayer's dependent) earning up to \$95,000 and married couples earning up to \$190,000.

About the Maryland Budget & Tax Policy Institute

The Maryland Budget and Tax Policy Institute is a nonpartisan research organization that provides timely, accurate and accessible analysis of state budget and tax issues. In addition to general budget and tax research and analysis, the Institute examines issues affecting low-income Marylanders and other vulnerable populations and the important community programs that serve them. For additional information, to be added to our e-mail list, or to make a tax-deductible contribution, please visit our website at www.marylandpolicy.org.

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