



Committee: Directly to Council

Committee Review: N/A

Staff: Ludeen McCartney-Green, Legislative Attorney

Purpose: Final action – vote expected

Keywords: ¹#WorkingFamilies,#MoCoIncomeSupplement,#IncomeEquity

AGENDA ITEM #18A

June 15, 2021

Action

SUBJECT

Expedited Bill 14-21, Finance – Working Families Income Supplement– Amendments

Lead Sponsors: Council Vice President Albornoz and Councilmembers Navarro and Katz

Co-Sponsors: Council President Hucker and Councilmembers Friedson, Rice, Glass, Riemer and Jawando

EXPECTED ATTENDEES

Michael Coveyou, Director of Finance, County Executive

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- Action – Council vote expected
- This bill did not go to Committee; a motion is required.

DESCRIPTION/ISSUE

Expedited Bill 14-21 would alter certain requirements for residents to qualify for Working Families Income Supplement and generally amend the law governing Working Families Income Supplement tax credit.

SUMMARY OF KEY DISCUSSION POINTS

- None

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Tiffany Jones	

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MEMORANDUM

June 10, 2021

TO: County Council

FROM: Ludeen McCartney-Green, Legislative Attorney

SUBJECT: Expedited Bill 14-21, Finance – Working Families Income Supplement– Amendments

PURPOSE: Action – roll call vote required

Expedited Bill 14-21, Finance – Working Families Income Supplement– Amendments, sponsored by Lead Sponsors, Council Vice President Albornoz and Councilmembers Navarro and Katz and Co-Sponsors, Council President Hucker, Councilmembers Friedson, Rice, Glass, Reimer, and Jawando was introduced on April 20.¹ A public hearing was held on May 11 at which four speakers testified.

Expedited Bill 14-21 would alter certain requirements for residents to qualify for Working Families Income Supplement.

BACKGROUND

Currently, under Code § 20-78, the law requires to claim the Working Income Families Supplement (WIFS) tax credit, a resident must be eligible and qualify for both the Federal and State earned income tax credit. The tax credit is for certain people who work and have earned income below a certain amount. The tax credit can reduce the amount of taxes a resident owes, or it can provide a refund.

It is important to note that Montgomery County is the only County in Maryland that offers a local income tax credit for its residents with a 100% match of the State earned income credit for the applicable tax year.

¹#WorkingFamilies;#MoCoIncomeSupplement;#IncomeEquity

Federal Earned Income Credit Requirements

According to the Internal Revenue Services (IRS), to be eligible and claim the Earned Income Tax Credit (EITC), a taxpayer and their dependents must have a valid social security number (SSN) before the due date of the return. However, certain taxpayers that are issued an IRS Individual Taxpayer Identification Number (ITIN) are noncitizens who do not qualify for a social security number and therefore exempt from applying for the federal EITC.

State Earned Income Credit Requirements

On March 5, 2021, the Maryland General Assembly enacted Senate Bill 218 – Child Tax Credit and Expansion of the Earned Income Credit (EIC) under Article II, §17(b) of the Maryland Constitution. This emergency bill expanded eligibility requirements of the State and local earned income tax credits, which also increased the State and local poverty level credits, by allowing additional taxpayers to claim the tax credits without the satisfying the federal requirement to have a valid social security number. In essence, Maryland no longer mirrors the federal eligibility standards.

The expansion under SB 218 will now provide for ITIN holders to qualify and support approximately 255,000 low-income workers² in Maryland. With the passage of the American Rescue Plan Act (ARPA), it increased the EITC for low-paid working adults who are not raising children at home and previously received a minimal credit. Further, it will raise the maximum EITC from about \$540 to about \$1,500, raise the income cap for them to qualify from about \$16,000 to at least \$21,000, and expand the age range of those eligible to include younger adults aged 19-24 who are not full-time students and those 65 and over.³

SPECIFICS OF THE BILL

Bill 14-21 will technically amend the requirements under County Code § 20-78 to allow a resident who qualifies for either Federal *or* State EIC to be eligible for the County’s Working Families Income Supplement. This amendment to the Code will expand the eligibility for residents who are ITIN holders and qualify for the State EIC, and thereby, eligible for the local earned income tax credit.

²“Van Hollen, Cardin Secure Maryland Funding in Senate-Passed American Rescue Plan.” *Chris Van Hollen*, Senator Chris Van Hollen, www.vanhollen.senate.gov/news/press-releases/van-hollen-cardin-secure-maryland-funding-in-senate-passed-american-rescue-plan. Accessed 12 Mar. 2021.

³ Center on Budget & Policy Priorities. “American Rescue Plan Act Will Help Millions and Bolster the Economy.” *Center on Budget & Policy Priorities*, 15 Mar. 2021, www.cbpp.org/research/poverty-and-inequality/american-rescue-plan-act-will-help-millions-and-bolster-the-economy.

The bill is a temporary expansion that applies to tax years 2020 through 2022 and sunsets on January 1, 2023.

ECONOMIC IMPACT STATEMENT

According to the Office of Management and Budget (OMB), it estimates that over 16,000 County residents who are ITIN holders will benefit from the WFIS, with an average of \$907 tax credit per filer, see Economic Impact Statement – Table 1 ©5.

SUMMARY OF PUBLIC HEARING

As stated above, the Council held a public hearing on May 11 where 3 speakers provided testimony in support and 1 speaker gave testimony in opposition of Bill 14-21. Michael Coveyou, on behalf of the County Executive, expressed support and highlighted the WFIS as one of the most successful programs to reduce anti-poverty amongst the lowest taxpayers and provides financial stability for County residents, see written testimony ©18. Tiffany Jones, Chair of the Montgomery County Action Board, provided testimony in support and stated expansion of the WFIS to ITIN holders is a racial equity tool for reducing poverty for households of color with an impact to improve health outcomes ©19. Further, there was one speaker who opposed the bill because the tax credit would benefit non-citizens and incentivize additional non-citizens to relocate to the County, at an increased cost burden for County taxpayers.

This packet contains:

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Expedited Bill No. 14-21
Concerning: Finance – Working Families
Income Supplement- Amendments
Revised: 3/24/2021 Draft No. 2
Introduced: April 20, 2021
Expires: October 20, 2022
Enacted: [date]
Executive: [date signed]
Effective: [date takes effect]
Sunset Date: January 1, 2023
Ch. [#], Laws of Mont. Co. [year]

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsors: Council Vice President Albornoz and Councilmembers Navarro and Katz
Co-Sponsors: Council President Hucker and Councilmembers Friedson, Rice, Glass, Riemer and
Jawando

AN EXPEDITED ACT to:

- (1) alter certain requirements for residents to qualify for Working Families Income Supplement; and
- (2) generally amend the law governing Working Families Income Supplement tax credit.

By amending

Montgomery County Code
Chapter 20, Finance
Section 20-78

Boldface	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law by original bill.</i>
[Single boldface brackets]	<i>Deleted from existing law by original bill.</i>
<u>Double underlining</u>	<i>Added by amendment.</i>
[[Double boldface brackets]]	<i>Deleted from existing law or the bill by amendment.</i>
* * *	<i>Existing law unaffected by bill.</i>

The County Council for Montgomery County, Maryland approves the following Act:

1 **Sec. 1. Section 20-78 is amended as follows:**

2 **20-78. Eligibility.**

3 (a) A person is eligible to receive the Working Families Income
4 Supplement if the person is eligible to receive, and has applied for:

5 (1) the federal earned income tax credit, or any successor federal
6 income tax credit; or [and]

7 (2) the analogous state refundable earned income credit.

8 (b) The County Executive, by regulations issued under Method (1), may
9 adopt other eligibility standards. However, those standards must not
10 make any person ineligible to receive the Supplement who would be
11 eligible under subsection (a).

12 **Sec. 2. Expedited Effective Date; Sunset.**

13 The Council declares that this legislation is necessary for the immediate
14 protection of the public interest. This Act takes effect on the date on which it
15 becomes law. The amendments in Section 1 must apply to all taxable years
16 beginning after December 31, 2019, but before January 1, 2023.

LEGISLATIVE REQUEST REPORT

Expedited Bill 14-21

Finance – Working Families Income Supplement– Amendments

DESCRIPTION: Expedited Bill 14-21 would alter certain requirements for residents to qualify for Working Families Income Supplement and generally amend the law governing Working Families Income Supplement tax credit.

PROBLEM: To qualify for the County’s Working Families Income Supplement tax credit, a resident must be eligible for both Federal and State Earned Income Tax Credit; this provision in the Code excludes certain taxpayers, *e.g.* ITIN holders, who do not qualify under certain federal requirements.

OBJECTIVE: To expand the County’s Working Families Income Supplement to include additional taxpayers, such as ITIN holders, who now qualify under the newly enacted State Earned Income Tax Credit standards, and thereby, eligible to claim the County’s refundable local income tax credit.

COORDINATION: N/A

FISCAL IMPACT: Office of Management and Budget.

ECONOMIC IMPACT: Office of Legislative Oversight

RACIAL EQUITY AND SOCIAL JUSTICE IMPACT: Office of Legislative Oversight

EVALUATION: To be requested.

EXPERIENCE ELSEWHERE: N/A

SOURCES OF INFORMATION: Ludeen McCartney-Green, Legislative Attorney
Department of Legislative Services (DLS)

APPLICATION WITHIN MUNICIPALITIES: N/A

PENALTIES: N/A

Economic Impact Statement

Office of Legislative Oversight

**Expedited
Bill 14-21**

**Finance – Working Families Income
Supplement – Amendments**

SUMMARY

By expanding the eligibility for the Working Families Income Supplement, the Office of Legislative Oversight (OLO) believes that Expedited Bill 14-21 would have targeted, economic benefits for residents who would receive financial assistance under the new requirements. Moreover, by increasing total household income and potentially attracting new households to the County, OLO believes that the bill would have broader, positive impacts on local economic conditions.

BACKGROUND

Bill Description

The Working Families Income Supplement (WFIS) provides financial assistance to low-income working families in the County.¹ The assistance comes in the form of a local earned income tax credit (EIC) (also known as an “EITC”). Residents who qualify for the WIFS receive a 100% match of the State EIC for the applicable tax year.² Under current law in the County, a resident is eligible to receive the WIFS “if the person is eligible to receive, and has applied for:

- (1) the federal earned income tax credit, or any successor federal income tax credit; *and*
- (2) the analogous state refundable earned income credit [emphasis added].”³

By requiring residents to be eligible for both the Federal and State EIC, residents who do not qualify under certain federal requirements are excluded from the WIFS.

Most significantly, residents who do not have a valid Social Security Number (SSN) are ineligible to receive the Federal EIC. According to the Internal Revenue Service,

“[t]o claim the EIC, you (and your spouse, if filing a joint return) must have a valid SSN issued by the Social Security Administration (SSA) by the due date of your 2020 return (including extensions). Any qualifying child listed on Schedule EIC also must have a valid SSN by the due date of your 2020 return (including extensions).”⁴

¹ <https://www.montgomerycountymd.gov/Cashback/Resources/Files/WFIS-fact-sheet.pdf>

² Montgomery County Code (MCC), Sec. 20-70. Amount of Supplement, https://codelibrary.amlegal.com/codes/montgomerycounty/latest/montgomeryco_md/0-0-0-9361.

³ Montgomery County Code (MCC), Sec. 20-78. Eligibility, https://codelibrary.amlegal.com/codes/montgomerycounty/latest/montgomeryco_md/0-0-0-9356.

⁴ See Chapter 1, Rule 2 in Internal Revenue Service, Publication 596, Earned Income Tax Credit, 2020 Returns, <https://www.irs.gov/pub/irs-pdf/p596.pdf>.

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This federal requirement prevents County residents who hold an Individual Taxpayer Identification Number (ITIN) from qualifying for the WIFS.⁵ As defined by the Internal Revenue Service (IRS), an ITIN “is a tax processing number only available for certain nonresident and resident aliens, their spouses, and dependents who cannot get a Social Security Number.”⁶

With the enactment of Senate Bill 218, Child Tax Credit and Expansion of the Earned Income Credit, the Maryland General Assembly altered the requirements for the state EIC.⁷ Residents of the state using an ITIN in lieu of an SSN may now be eligible for the state EIC. The Act applies to tax years 2020 through 2022.

If enacted, Expedited Bill 14-21 would expand the WFIS by making the eligibility requirements for the low-income assistance consistent with State law. In doing so, ITIN holders in the County who now qualify for the State EIC would be eligible to claim the County’s local income tax credit.⁸ Consistent with the timeframe of State law, the changes to the WFIS eligibility requirements would apply to tax years 2020 through 2022.

Impacted Residents

Expedited Bill 14-21 would primarily impact households in the County that have one or more ITIN holders. In its fiscal impact statement, the Office of Management and Budget (OMB) estimates that 16,626 ITIN holders in the County could have been eligible for the EIC under the requirements set in the bill in tax year 2019. Assuming an average County match of \$907, OMB projects that the WFIS would return an annual total of \$15,079,782 to County households with ITIN holders because of enacting Expedited Bill 14-21. Over the course of the three taxable years in which the eligibility requirements would apply, the WFIS would return a total of \$45,239,346. OMB’s projections are presented in **Table 1**.

Table 1. Fiscal Impacts of Expedited Bill 14-21

Number of ITIN Holders Eligible for EIC in 2019	16,262
Average EIC Per Filer at 45% Federal Match	\$907
Projected Annual Total Return to County Households	\$15,079,782
3-Year Projected Total Return to County Households	\$45,239,346

Data Source: Fiscal Impact Statement, Expedited Bill 14-21, Finance – Working Families Income Supplement – Amendments, Office of Management and Budget

⁵ Montgomery County Council, Expedited Bill 14-21, Finance – Working Families Income Supplement – Amendments, Introduced on April 20, 2021. See Introduction Staff Report, https://apps.montgomerycountymd.gov/ccllms/DownloadFilePage?FileName=2705_1_14346_Bill_14-2021_Introduction_20210420.pdf.

⁶ <https://www.irs.gov/individuals/international-taxpayers/taxpayer-identification-numbers-tin>

⁷ For more information on the bill, see the following link:

<https://mgaleg.maryland.gov/mgaweb/legislation/details/sb0218?ys=2021RS>.

⁸ Montgomery County Council, Expedited Bill 14-21.

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The approximately 21,000 residents who would be impacted by Expedited Bill 14-21 would fall within specific “earned income” levels. The IRS defines “earned income” as

“wages, salaries, tips, other taxable employee pay, and net earnings from self-employment. Employee pay is earned income only if it is taxable. Nontaxable employee pay, such as certain dependent care benefits and adoption benefits, isn't earned income.”

The State conforms to the federal eligibility requirements.⁹ As shown in **Table 2**, individuals earning less than \$57,000 per year may be eligible to receive the State EIC, with a 100% match from the County.

Table 2. Earned Income Qualifications for EIC

Earned Income		# of Qualifying Children
Individual	Married Filing Jointly	
\$50,954	\$56,844	3 or more
\$47,400	\$53,330	2
\$41,756	\$47,646	1
\$15,820	\$21,710	0

Data Source: Rule 15 – Earned Income Limits, Internal Revenue Service, Publication 596, Earned Income Tax Credit, 2020 Returns¹⁰

Data from the 2019 American Community Survey indicates the occupational composition of County residents who would be impacted by Expedited Bill 14-21. **Figure 1** presents the occupations of foreign-born noncitizen County residents with a household income less than \$57,000 per year in 2019. In this year, there were a total of 31,804 residents who fall within this category. (Note: Not all foreign-born noncitizen residents below this income threshold would be eligible to receive the EIC due to the number of qualifying children and other eligibility requirements.) As shown in **Figure 1**, these residents were most heavily concentrated in the following occupations:

- construction and extraction (18%),
- food service and food preparation (13%),
- transportation and material moving (11%),
- sales and related (11%), and
- building and grounds cleaning maintenance (11%).

Figure 2 compares the concentration of foreign-born noncitizen residents with household incomes below \$57,000 in these occupations relative to all County residents. As indicated in **Figure 2**, the former were more heavily concentrated in these occupations.

⁹ Fiscal and Policy Note, Senate Bill 218, Income Tax – Child Tax Credit and Expansion of the Earned Income Tax, https://mgaleg.maryland.gov/2021RS/fnotes/bil_0008/sb0218.pdf.

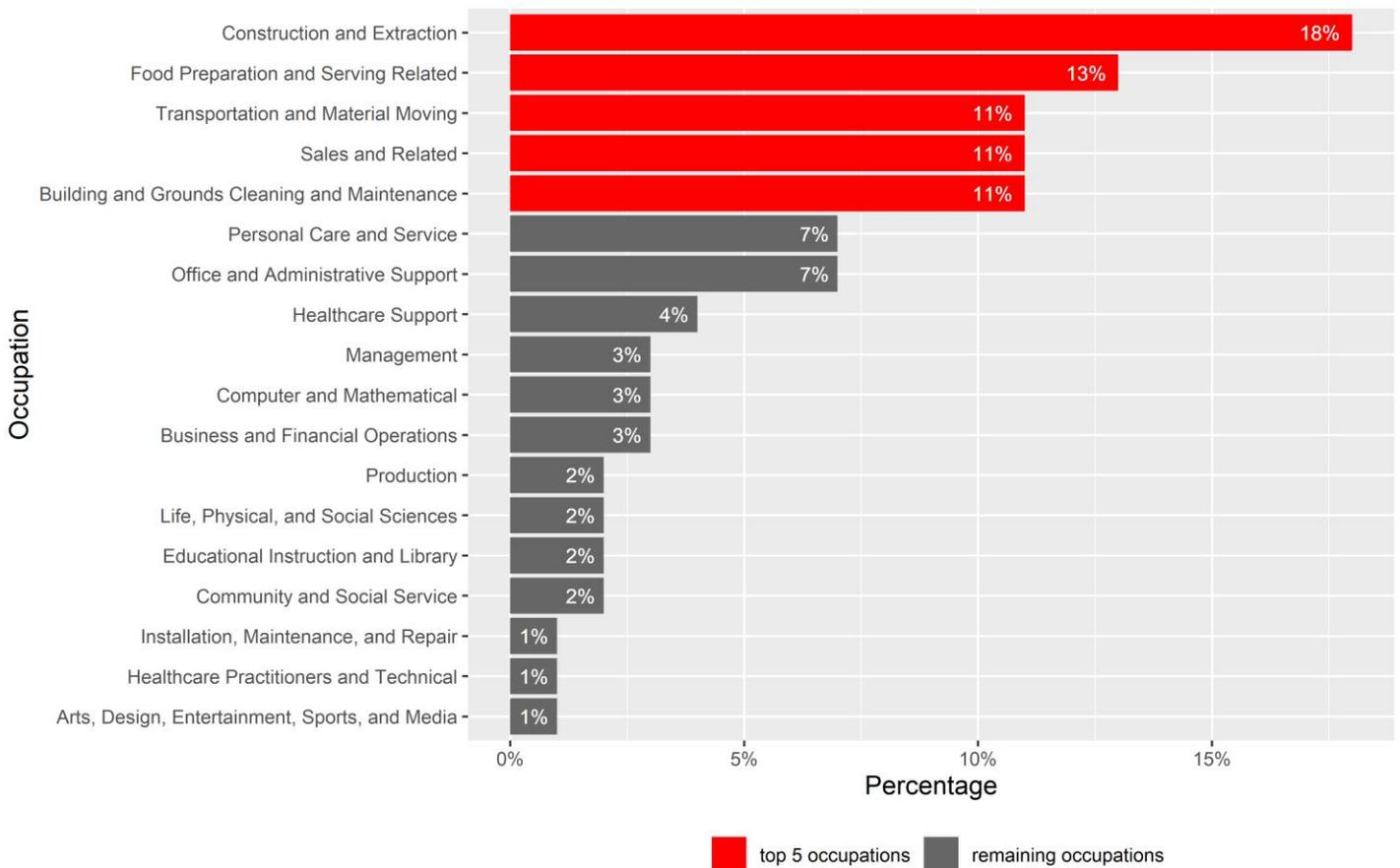
¹⁰ See link: , <https://www.irs.gov/pub/irs-pdf/p596.pdf>.

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Moreover, **Table 3** presents the median wages for workers in these occupations in 2020 and compares them to the median wage for all occupations within the Montgomery County workforce region. For all five occupations, the median wage is significantly below the all occupations wage.

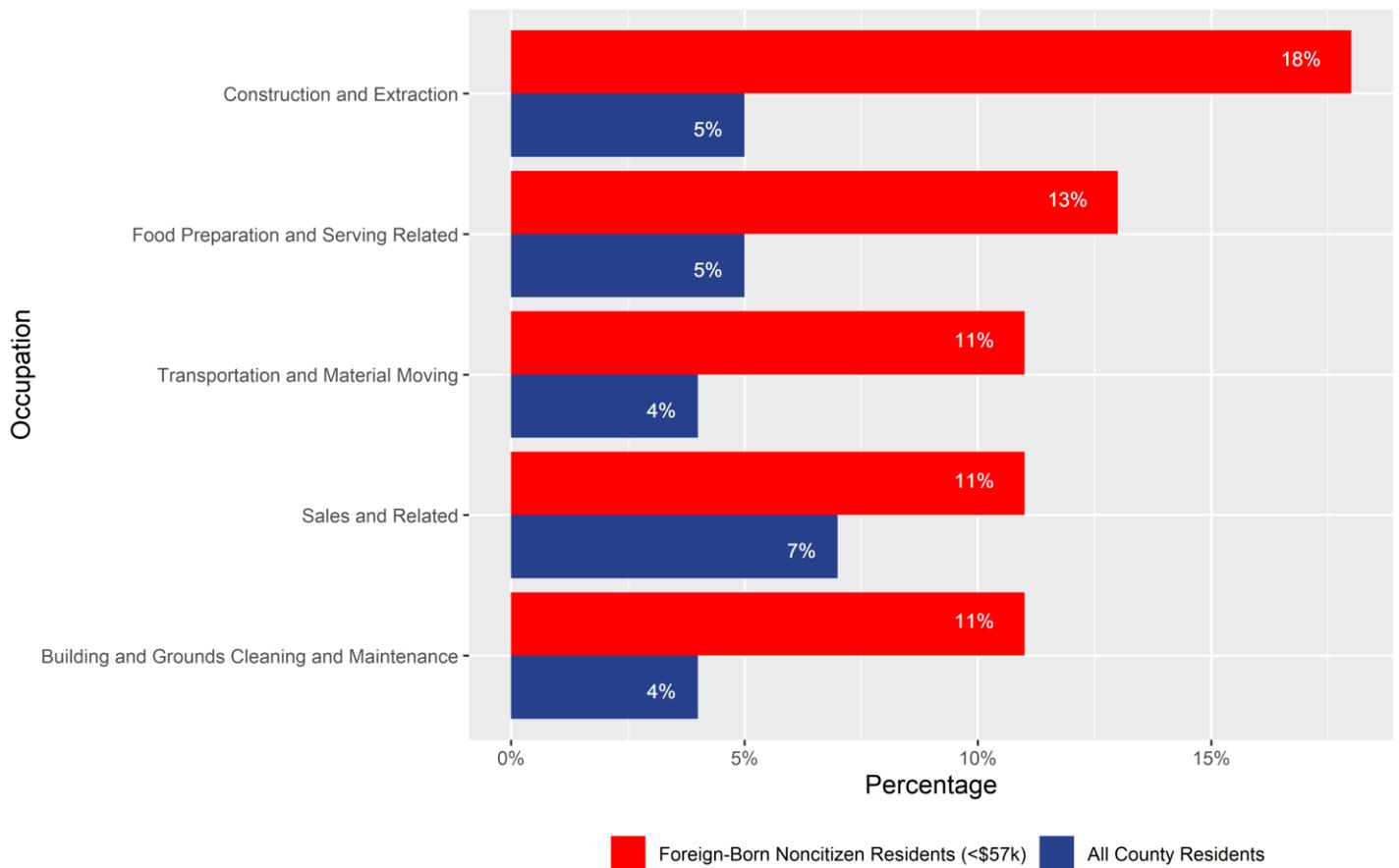
Figure 1. Occupations of Foreign-Born Noncitizen County Residents with Household Income Less Than \$57k (2019)



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Figure 2. Top 5 Occupations of Foreign-Born Noncitizen Residents with Household Income Less Than \$57k (2019)



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Table 3. Difference Between Median Wage of All Occupations and Top 5 Occupations of Foreign-Born Noncitizen Residents with Household Income Less Than \$57k (2020)

Occupation	Median Wage Hourly	Median Wage Annual	Difference Between Occupation and All Occupations Median Wage	
			Hourly Difference	Annual Difference
Construction and Extraction	\$23.70	\$49,286.00	-\$4.97	-\$10,339.00
Food Preparation and Serving Related	\$13.47	\$28,025.00	-\$15.20	-\$31,600.00
Transportation and Material moving	\$15.69	\$32,625.00	-\$12.98	-\$27,000.00
Sales and Related	\$16.66	\$34,643.00	-\$12.01	-\$24,982.00
Building and Grounds Cleaning and Maintenance	\$14.97	\$31,127.00	-\$13.70	-\$28,498.00

Data Source: Maryland Department of Labor, Occupational Employment and Wage Estimates 2020, Montgomery Workforce Region¹¹

METHODOLOGIES, ASSUMPTIONS, AND UNCERTAINTIES

Enacting Expedited Bill 14-21 would involve an internal transfer from the County to certain households. Using tax revenue, the County would provide residents who are impacted by the change in law with an EIC, which would amount to a net increase in household income for these residents. The internal transfer from the County to households would not, however, entail a net increase in the amount of economic activity in the County. Ultimately, the total annual economic impact of Expedited Bill 14-21 would depend on:

- (a) the per year economic benefits of increased household income; and
- (b) the per year economic opportunity cost of reduced County revenues.

Because OLO does not know how the County revenues would otherwise be used in the absence of enacting Expedited Bill 14-21, OLO limits the scope of the analysis below to the economic benefits of increased household income. Thus, this analysis does not account for the economic impacts of alternative government spending.

To assess the economic impacts of enacting Expedited Bill 14-21, OLO estimates the multiplier effect of increasing household income through the EIC, which would increase household spending within the County. The multiplier effect captures how changes in economic activity affect other rounds of spending, and how additional spending impacts certain

¹¹ See link <https://www.dllr.state.md.us/lmi/wages/toc008.htm>.

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economic indicators. To illustrate, an increase in household income may in turn increase demand for local restaurants, resulting in restaurant owners hiring more workers.

This analysis uses the Regional Input-Output Modeling System (RIMS II) “final-demand multipliers” for Montgomery County developed by the U.S. Bureau of Economic Analysis.¹² The multiplier effect of increased household income is estimated in terms of four economic measures:

- **Output (sales):** total market value of industry output,
- **Value-Added:** total value of income generated from production (equivalent to gross domestic product),
- **Earnings:** employee compensation plus net earnings of sole proprietors and partnerships, and
- **Employment:** number of full- and part-time employees.¹³

Table 4 presents the RIMS II household multipliers for Montgomery County. OLO uses these multipliers to estimate the household multiplier effects for each economic measure.

Table 4. RIMS II Household Multipliers for Montgomery County

Output	Earnings	Employment	Value-Added
0.7951	0.1587	3.8028	0.4936

Data Source: U.S. Bureau of Economic Analysis

As previously stated, OMB projects that Expedited Bill 14-21 would result in a total annual increase in household income of \$15,079,782. Over the course of the three-year timeframe of the bill, there would be a \$45,239,346 increase in household income. **Table 5** presents the multiplier effects for these estimated increases in household income.

Table 5. Multiplier Effects of an Increase in Total Household Income

Timeframe	Output	Earnings	Employment	Value-Added
1-Year Estimate	\$11,989,935	\$2,393,161	57	\$7,443,380
3-Year Estimate	\$35,969,804	\$7,179,484	172	\$22,330,141

Expedited Bill 14-21 also could potentially attract new residents. It is possible that the opportunity to receive the local EIC may lead some households to prefer the County over surrounding jurisdictions. However, OLO cannot estimate the number of new households (if any) that would relocate to the County. Despite this uncertainty, OLO uses the RIMS II multipliers to estimate the economic impact of attracting a new household with an annual earned income of \$57,000. **Table 6** presents the multiplier effects for attracting one new household at this income level.

¹² U.S. Bureau of Economic Analysis, *RIMS II: An Essential Tool for Regional Developers and Planners*, December 2013, https://apps.bea.gov/regional/rims/rimsii/rimsii_user_guide.pdf.

¹³ Ibid, 3 – 3 and 3 – 4.

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Table 6. Multiplier Effects of One New Household with Annual Earned Income of \$57k

Timeframe	Output	Earnings	Employment	Value-Added
1-Year Estimate	\$45,321	\$9,046	0.22	\$28,135
3-Year Estimate	\$135,962	\$27,138	0.65	\$84,406

VARIABLES

The primary variables that would affect the economic impacts of Expedited Bill 14-21 are:

- total number of additional residents eligible to receive the WFIS,
- total amount of the County EIC that newly eligible residents receive,
- total number of households that relocate to the County to receive the WFIS, and
- percentage of additional household income spent within the County.

IMPACTS

WORKFORCE ▪ **TAXATION POLICY** ▪ **PROPERTY VALUES** ▪ **INCOMES** ▪ **OPERATING COSTS** ▪ **PRIVATE SECTOR CAPITAL INVESTMENT** ▪ **ECONOMIC DEVELOPMENT** ▪ **COMPETITIVENESS**

Businesses, Non-Profits, Other Private Organization

Expedited Bill 14-21 would have positive economic impacts for private organizations in the County. Using the RIMS II multipliers, OLO estimates that by increasing total household by \$45,239,346 during its three-year timeframe, Expedited Bill 14-21 would generate:

- \$35,969,804 in output (i.e., total market value of industry output),
- \$22,330,141 in value-added (i.e., total value of income generated from production),
- \$7,179,484 in earnings (i.e., employee compensation plus net earnings of sole proprietors and partnerships), and
- 172 new jobs (i.e., full- and part-time employees).

The substantial gains in output and value-added reflect the increase in household spending for goods and services provided by businesses operating in the County. Thus, these gains would entail net increases in income for businesses that benefit from the increase in household spending induced by Expedited Bill 14-21. In addition to business income, the bill would also affect business workforces by increasing employee earnings and creating new jobs.

Moreover, if the new EIC requirements influence relocation decisions among householders, Expedited Bill 14-21 would improve the County's competitiveness in attracting new households relative to peer jurisdictions. Improvement in competitiveness in attracting residences would increase total household income, which in turn would increase incomes for certain businesses, employee earnings and potentially create new jobs, as shown in **Table 6**. The magnitude of these impacts would depend on the number of new households that would relocate to the County to receive the EIS.

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Other than these indicators, OLO does not anticipate that Expedited Bill 14-21 would impact private organizations in terms of the Council's other priority indicators.¹⁴

Residents

By altering County taxation policy, Expedited Bill 14-21 would have targeted, positive impacts for residents who would receive the EIC under the new requirements for the WFIS. These residents primarily would be foreign-born noncitizens who possess ITINs and whose household income is less than \$57,000. Residents who fall into this category are disproportionately concentrated in the construction and extraction, food preparation and serving related, transportation and material moving, sales and related, and building and grounds cleaning and maintenance occupations (see **Figure 1** and **Figure 2**). The median wage for workers in these occupations is significantly lower than the median wage for all occupations in the County workforce region (see **Table 3**). Residents who would receive the EIC under the requirements specified in Expedited Bill 14-21 would experience a net increase in household income.

Expedited Bill 14-21 would also have more diffuse, positive impacts for residents. Specifically, residents who experience increases in employee earnings and new jobs as result of the household multiplier effect would also benefit from the bill.

DISCUSSION ITEMS

Not applicable

WORKS CITED

U.S. Census Bureau. American Community Survey. 2019.

Maryland Department of Labor. Occupational Employment and Wage Estimates 2020. Montgomery Workforce Region.

Montgomery County Code. Sec. 2-81B. Economic Impact Statements.

Montgomery County Council. Expedited Bill 14-21, Finance – Working Families Income Supplement – Amendments. Introduced on April 20, 2021.

U.S. Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planner.*, December 2013.

Fiscal and Policy Note. Senate Bill 218. Income Tax – Child Tax Credit and Expansion of the Earned Income Tax.

Montgomery County Code. Sec. 20-78. Eligibility.

Internal Revenue Service. Publication 596. Earned Income Tax Credit. 2020 Returns.

¹⁴ For the Council's priority indicators, see Montgomery County Code, Sec. 2-81B. Economic Impact Statements, https://codelibrary.amlegal.com/codes/montgomerycounty/latest/montgomeryco_md/0-0-0-80894.

Economic Impact Statement

Office of Legislative Oversight

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.

Racial Equity and Social Justice (RESJ) Impact Statement

Office of Legislative Oversight

EXPEDITED **Finance-Working Families Income** BILL 14-21: **Supplement-Amendments**

SUMMARY

The Office of Legislative Oversight (OLO) expects Expedited Bill 14-21 to favorably impact racial equity and social justice in Montgomery County.

BACKGROUND

On April 20, 2021, the Council introduced Expedited Bill 14-21 to expand eligibility requirements for the County's Working Family Income Supplement (WFIS).

Bill 14-21 would increase the number of residents eligible for the WFIS. As an anti-poverty program, the County-funded WFIS matches 100% of the State's Earned Income Tax Credit (EITC) program to provide economic support for low-income families in Montgomery County.¹ According to the County's Cashback website, "about 32,000 Montgomery County households received a credit for tax year 2019, with an average credit of \$546."²

As currently constructed, the WFIS limits eligibility to recipients that are eligible and apply for the Federal and State EITCs.³ As such, current WFIS requirements exclude certain low-income taxpayers with children, including Individual Tax Identification Number (ITIN) holders, because they are typically ineligible for either the Federal or State EITC.⁴ The National Immigration Law Center reports that some immigrant workers rely on ITINs to file their taxes.⁵

According to the American Community Survey (ACS), nearly 9% of Montgomery County's foreign-born residents lived in poverty in 2019 compared to 6% of native-born residents.⁶ The Office of Management and Budget estimates that Expedited Bill 14-21 could benefit 20,000 or more residents in the County.⁷ If implemented, Bill 14-21 would make the following modifications to County law:

- Alter certain requirements for residents to qualify for WFIS; and
 - Generally amend the law governing WFIS tax credit.⁸
-

DEMOGRAPHIC DATA

Understanding the impact of Expedited Bill 14-21 on racial equity and social justice in the County requires a review and analysis of local data describing low-income foreign-born residents who might be ITIN holders. As noted in Table 1, 2016 American Community Survey (ACS) data suggests that foreign-born residents from Latin America would disproportionately benefit from Bill 14-21 followed by residents from Asia. For example:

(14)

RESJ Impact Statement

Expedited Bill 14-21

- Residents born in Latin America represented 37% of the County’s foreign-born population and 44% of the foreign-born residents who lived in poverty¹;
- Residents born Asia also represented 37% of the County’s foreign-born population but accounted for 28% of the foreign-born residents who lived in poverty.⁹

Table 1: Places of Birth and Poverty of Foreign-Born Residents in Montgomery County

Place of Birth	Number of Foreign-Born	Distribution of Foreign-Born	Number in Poverty	Distribution of Foreign-Born in Poverty
Latin America	123,164	37%	13,548	44%
Asia	122,601	37%	8,582	28%
Africa	53,433	16%	*	*
Europe	31,249	9%	2,187	7%
North America	3,291	Less than 1%	*	*
Oceania ²	959	Less than 1%	*	*
Total Foreign-Born	334,697	100%	30,122	100%

Source: American Community Survey 5-Year Estimates 2012-2016

*Poverty data are not available for all regions

Further, data compiled in OLO Report 2018-13, *The Two-Generation Approach to Poverty in Immigrant Communities*,¹⁰ suggests that many low-income children in the County would benefit from Bill 14-21. The vast majority of low-income children have at least one foreign-born parent that, unlike a U.S. born parent, might rely on ITINs. More specifically, in 2016:

- 74% of children in families earning up to 200% of the federal poverty level had one foreign-born parent and 70% had two foreign-born parents;
- 79% of children in families earning between 100% and 199% of the federal poverty level had one foreign-born parent and 76% had two foreign-born parents; and
- 64% of children in families earning less than 100% of the federal poverty level had one foreign-born parent and 60% had two foreign-born parents.¹¹

¹ The U.S. Census Bureau defines poverty, using thresholds that establish an average minimal-dollar value equal to an accepted standard of living. People whose income falls below the appropriate threshold value are defined as "living in poverty".

² According to National Geographic, Oceania is dominated by Australia. The other two major landmasses of Oceania are the microcontinent of Zealandia, which includes the country of New Zealand, and the eastern half of the island of New Guinea, made up of the nation of Papua New Guinea. Oceania also includes three island regions: Melanesia, Micronesia, and Polynesia (including the U.S. state of Hawaii).

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ANTICIPATED RESJ IMPACTS

OLO anticipates that Bill 14-21 will extend WFIS benefits primarily to immigrant families, because children from foreign-born parent(s) account for the vast majority of children impacted by poverty in Montgomery County. Combined, Latinx and Asian residents account for 81% of all foreign-born residents that experience poverty in Montgomery County. OLO anticipates that current low-income ITIN holders with children are also disproportionately Latinx and Asian. As such, OLO anticipates that Expedited Bill 14-21 will favorably impact racial equity and social justice in the County by increasing incomes among low-income Latinx and Asian households with children.

METHODOLOGIES, ASSUMPTIONS, AND UNCERTAINTIES

This RESJ impact statement and OLO's analysis rely on several information sources, including Census data and OLO reports to understand trends and disparities in poverty by race and ethnicity locally. These include:

- American Community Survey
- *Racial Equity Profile Montgomery County*, OLO Report 2019-7¹²
- *The Two-Generation Approach to Poverty in Immigrant Communities*, OLO Report 2018-13
- Unpublished data provided by OMB.

OLO also visited the websites of the National Immigration Law Center¹³ and the American Immigration Council¹⁴ for information.

RECOMMENDED AMENDMENTS

The County's Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements.¹⁵ OLO has determined that the key provisions included in Expedited Bill 14-21 adequately address RESJ in the County. Consequently, this RESJ impact statement does not offer recommendations.

CAVEATS

Two caveats to this racial equity and social justice impact statement should be noted. First, predicting the impact of legislation on racial equity and social justice is a challenging, analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ statement is intended to inform the legislative process rather than determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

Dr. Theo Holt, RESJ Performance Management and Data Analyst for OLO, drafted this RESJ statement with assistance from Dr. Elaine Bonner-Tompkins, Senior Legislative Analyst, OLO.

¹ Montgomery County Cashback Website <https://www.montgomerycountymd.gov/Cashback/Resources/Files/WFIS-fact-sheet.pdf>

² Ibid

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³ Montgomery County Council, Bill 14-21, Finance-Working Families Income Supplement-Amendments, April 2021, Montgomery County, Maryland. https://apps.montgomerycountymd.gov/ccllims/DownloadFilePage?FileName=2705_1_14346_Bill_14-2021_Introduction_20210420.pdf

⁴ Ibid

⁵ Ibid

⁶ Selected Characteristics of the Foreign-Born Population by Period, American Community Survey, United States Census, 2019. <https://data.census.gov/cedsci/table?q=montgomery%20county,%20maryland&tid=ACSST1Y2019.S0502> and https://data.census.gov/cedsci/table?q=Foreign_Born&tid=ACSST1Y2019.S0502

⁷ Unpublished data provided by OMB provided by Stephen Roblin, Performance Management and Data Analyst, OLO, April 2021.

⁸ Bill 14-21

⁹ American Community Survey

¹⁰ Natalia Carrizosa, The Two-Generation Approach to Poverty in Immigrant Communities, OLO Report 2018-13, December 2018, Office of Legislative Oversight, Montgomery County, Maryland. https://www.montgomerycountymd.gov/OLO/Resources/Files/2018_Reports/OLORReport2018-13.pdf

¹¹ Ibid

¹² Jupiter Independent Research Group, Racial Equity Profile Montgomery County, OLO Report 2019-7, July 2019, Office of Legislative Oversight, Montgomery County, Maryland.

¹³ National Immigration Law Center <https://www.nilc.org/issues/taxes/itinfaq/>

¹⁴ American Immigration Council <https://www.americanimmigrationcouncil.org/research/facts-about-individual-taxpayer-identification-number-itin>

¹⁵ Montgomery County Council, Bill No. 27-19 Racial Equity and Social Justice, Montgomery County, MD.

**TESTIMONY ON BEHALF OF COUNTY EXECUTIVE MARC ELRICH ON
BILL 14-21, FINANCE – WORKING FAMILIES INCOME SUPPLEMENT - AMENDMENTS**

Good afternoon Council President Hucker, Vice-President Albornoz and Councilmembers, for the record my name is Mike Coveyou, Director of Finance. It is my pleasure to appear before the Council on behalf of the County Executive to provide brief testimony on Bill 14-21 (the “Bill”). The County Executive supports this bill, and thanks the County Council for taking it up in a timely manner.

On March 5, 2021, the Maryland General Assembly enacted Senate Bill 218 - Child Tax Credit and Expansion of the Earned Income Credit, which made filers using an Individual Taxpayer Identification Number (ITIN) eligible for State Earned Income Tax Credits (EITC or EIC) for the first time. Before March only filers using social security numbers were eligible for EICs on their Maryland returns. SB218 did not change the other eligibility requirements or calculations pertaining to a claim for this credit, and not all filers using an ITIN will be eligible for the expanded credit. The expanded Maryland EICs is available in tax years 2020, 2021, and 2022.

Bill 14-21 amends the County Code to allow County taxpayers who file with ITINs to claim the County’s supplemental EIC, which is known as the Working Families Income Supplement (WFIS Program). It is well known that Earned Income Tax Credits programs in the US serve to lift more people out of poverty than any other program, save Social Security. This bill extends the County’s WFIS Program to those County residents who heretofore have been ineligible for these tax credits because they are not citizens. The WFIS Program reduces poverty among our most vulnerable citizens, many of whom are people of color, and the Program therefore serves to foster racial justice and social equity.

This expansion of the WFIS Program would be the largest since its inception, though it is temporary, lasting for three fiscal years (the length of time the State expansion is effective). The cost of the expansion is difficult to forecast, but the current estimate is that it could cost \$15 million a year for three years. The cost will depend on how many County residents who file with ITINs are eligible and also file for the State EITC, as the WFIS Program is a match of the State EITC. Because the State of Maryland shifted the filing deadline for 2020 income taxes from April 15th to July 15th, we will not know the FY22 cost of the WFIS Program until later than usual (normally the State Comptroller provides that information mid-July). The Executive’s recommended budget contained \$5 million for ITIN EITC and on behalf of the Executive the Council President recently introduced a supplemental for an additional \$5 million.

The WFIS Program is one of the most successful anti-poverty tools that the County possesses. Expanding the Program to immigrants recognizes the contribution they make to our society and provides stability for those who are among our most vulnerable neighbors. On behalf of County Executive Elrich, I thank you for considering these thoughts, and request that you pass Bill 14-21.



County Council Bill 14 – 21 – Working Families Income Supplement Amendments
Montgomery County Community Action Board Testimony
Tiffany Jones, Chair
May 11, 2021

Good afternoon, Council President Hucker, Vice President Albornoz, and members of the County Council. My name is Tiffany Jones and I am the Chair of the Montgomery County Community Action Board. Thank you for the opportunity to speak with you on behalf of our board in strong support of Council Bill 14 – 21.

As advocates for the low-income community, Earned Income Tax Credits and VITA free tax preparation services have been longtime priorities for the Community Action Board. Extensive research indicates that the EITC is one of the best tools available to not only lift people out of poverty¹, but also reduce health disparities² and improve educational outcomes for children³. This year, the CAB supported the expansion of the Maryland EITC, which raised the state match to 45% of the federal EITC, increased the EITC for single adults, and, for the first time, included rather than excluded people who file taxes with an ITIN. This expansion is estimated to impact 45,000 County residents filing tax returns including dependents, 21,000 County filers without dependents, and 5,300 ITIN filers in the County (factsheet attached).

We are thrilled that more Marylanders will now benefit from the state EITC, and we are pleased that County leadership has committed to similarly expanding the WFIS. Passage of this bill will allow more community members to benefit from a proven anti-poverty tool. While the list of positive impacts of Earned Income Tax Credits is too long to share in this testimony, it is important to note that the impact extends well beyond the financial realm. For example, EITC

¹ <https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit>

² https://www.kellogg.northwestern.edu/faculty/garthwaite/htm/EITC_Health_Final_Draft.pdf and <http://ftp.iza.org/dp12417.pdf>

³ https://www.nber.org/system/files/working_papers/w14599/w14599.pdf

expansions have been linked to increased birthweights⁴, with larger impacts for births to African American women, to improved maternal health⁵, and to decreases in children entering foster care⁶. The EITC, is also a racial equity tool as research has shown its greater impact on reducing poverty for households of color⁷. Research finds these benefits are also conveyed through the Child Tax Credit, recently expanded through the ARPA.

With the Maryland EITC extending to more filers this year, it is important to assure that County residents are aware of these credits, as one in three households are typically new filers. EITC recipients must also have access to tax services that will connect them with all of the credits for which they are eligible. The Community Action Agency coordinates the County's multilingual EITC outreach campaign, is the County's largest VITA program, and is Maryland's largest VITA program preparing taxes for taxpayers with ITINs. Extensive outreach this year included Ride On bus signs, flyers in seven languages, and, through the United Way, a text messaging campaign that resulted in a substantial increase in visits to the CASHBACK website and calls from residents in need of free tax services.

Through CARES, ARPA and the Maryland Relief Act, a number of new tax laws are increasing refunds substantially for lower-income taxpayers, yet the "free tax help" capacity has decreased by at least 80%, according to our colleagues at the CASH Campaign of Maryland, due to the complexity of delivering virtual services during COVID. The agency's VITA program has been serving County residents through a virtual model since June of 2020. In March, with an already long waitlist of 200+, the program stopped accepting clients in desperate need of free tax help. Therefore, we appreciate the County Council HHS Committee's recommendation to add \$180,000 in ARPA funding to support Community Action's two full-time County employees to strengthen service delivery, working with the current Fellow and 20 volunteers, and to increase outreach to link all eligible community members to credits that can substantially

⁴ <https://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.20120179>

⁵ https://www.kellogg.northwestern.edu/faculty/garthwaite/htm/EITC_Health_Final_Draft.pdf

⁶ <https://journals.sagepub.com/doi/full/10.1177/1077559519900922>

⁷ <https://www.cbpp.org/research/state-budget-and-tax/state-earned-income-tax-credits-help-build-opportunity-for-people-of>

impact their financial well-being. In addition to strongly encouraging the Council to fully support the funding to Community Action Agency's VITA program, the Community Action Board recommends that the Volunteer Center's RSVP/AARP program and community-based VITA partners who contribute to serving low-income people also receive ARPA funding to strengthen service delivery.

Thank you for your ongoing support of the low-income community and programs, like the EITC and WFIS, that help residents move towards self-sufficiency.

UPDATES TO THE WORKING FAMILIES INCOME SUPPLEMENT



EITC & WFIS BENEFITS

Montgomery County's Working Family Income Supplement provides vital economic support to very low-income families living in a county that has some of the highest housing costs in the state. About 32,000 Montgomery County households received a credit for tax year 2019, with an average credit of \$546.

The WFIS adds another layer of support on top of federal and state tax credits, the Earned Income Tax Credit and the Child Tax Credit. These tax credits are powerful anti-poverty tools and high-quality research links them to a wide range of benefits. The WFIS provides an additional benefit in that it is delivered several months after families have received their federal and state tax refunds, providing economic stability throughout the year.

For most of its history, the WFIS has been a 100% match of the state Earned income Tax Credit.

- Together, the federal, state and local credits lift family incomes above the poverty line
- Flexible funds that can be used to meet a range of needs
- Research links working family credits like the EITC to better health outcomes and higher levels of education
- Investing more in working family tax credits is good for business too. Low-income households are likely to quickly spend tax refunds at local businesses

State Changes to the Earned Income Tax Credit

This month, the Maryland General Assembly passed emergency legislation providing additional economic assistance to low-income families and small businesses and Governor Hogan signed it into law.

One of the central provisions was a major expansion of the state EITC for tax years 2020 through 2022. A second emergency bill focused on expanding the EITC to include all immigrant taxpayers.

These changes will provide needed benefits to about 45,000 Montgomery County households.

The below changes automatically expand the benefits of the Montgomery County WFIS, but needs to be accounted for in the County budget:

Increased the refundable portion of Maryland's EITC for tax returns including dependents to 45% of the federal credit, up from 28%

- This is expected to increase the average credit to about \$1,100

Increased the refundable portion of the EITC for filers not claiming dependents on their taxes to 100%, or a max of \$530

- This change is important because the federal credit is very low for people not claiming dependents on their taxes.

- This will increase the average credit for these taxpayers from about \$75 to about \$375.
- This change will benefit an estimated 21,000 Montgomery County residents.

Allowing people to receive the EITC if they pay taxes using an Individual Taxpayer Identification Number (ITIN) rather than a Social Security number, or who are otherwise excluded by federal eligibility rules that aren't related to their income.

- About 5,300 Montgomery County households pay taxes using an ITIN and meet the income and other eligibility rules for the EITC.

Example: Married couple, 2 kids

