

Worksession

MEMORANDUM

April 26, 2010

TO: Management and Fiscal Policy Committee  
FROM: *CHS*  
Charles H. Sherer, Legislative Analyst  
SUBJECT: Executive's April 22, 2010 Budget Adjustments: Working Families Income Supplement NDA, section 67

**March 15 budget** The Committee reviewed this NDA on April 12, 2010 and recommended approval of the Executive's March 15 recommended amount, \$16,656,400. This NDA provides funds to match the State's Refundable Earned Income Tax Credit (EITC). The intent of the Working Families Income Supplement is to provide financial assistance to low-income working families in Montgomery County. The County, through the NDA, reimburses the State for the cost of the refund and related administrative expenses. County law specifies that the County "match" will be the same amount as the State's payment:

**Sec. 20-79. Amount of Supplement.**

The amount of the Working Families Income Supplement paid to each recipient must equal the amount of any refund the recipient receives from the State earned income credit program.

For example, if the State paid a County resident \$250, the County would also pay \$250, for a total of \$500. The State would send the resident a check for \$500 and the County reimburses the State for the County share.

FY10 budget approved in May 2008	\$15,008,200
Increase	1,648,200
FY11 Executive recommendation in March 15, 2010 budget	\$16,656,400

The increase reflected an estimated 10,000 increase in the number of recipients, reduced earnings for many residents due to the weak economy, and a change in the State formula.

**April 22 budget** On April 22, 2010, the Executive recommended a package of FY10 and FY11 budget adjustments in response to the \$168 million reduction in income tax revenue about which he told the Council on April 13. Two of the adjustments were reductions to this NDA.

**1. \$474,100 reduction** As explained in the Executive’s memorandum, the FY11 budget was based on an estimated 32,180 recipients in FY11. Based on updated data from the Controller’s Office, the estimated number of recipients is reduced to 30,505. Finance calculates that the reduction in the estimated number of recipients will reduce total payments by \$474,100. The budget after this technical adjustment is \$16,182,300. Council staff recommends approval of this technical adjustment. See table below.

**2. \$5,394,100 reduction** This is one-third of the budget after reducing the number of recipients, as explained below in the extract from the Executive’s April 22 memorandum.

**Working Families Income Supplement**

Montgomery County is one of the few local governments in the nation that provides a local Earned Income Tax Credit (EITC) for its residents. This program, which began in FY00 at a cost of \$2.2 million, was based on matching the State’s EITC which, at that time was 10% of the Federal EITC. Participation in the program included 12,322 total recipients. Since that time, the State match of the Federal EITC has grown to 25% at an estimated cost in FY11 of \$16.2 million and 30,505 recipients. The average EITC payment has grown from \$178 in FY00 to an estimated \$530 in FY11. In order to respond to the current fiscal crisis, I am recommending that we reduce this payment by 33%. This would create savings of \$5,394,100 and would change the average EITC payment to \$353 which is approximately the level this payment was in FY05.

March 15, 2010 Executive's recommended budget	\$16,656,400
Reduction for fewer recipients	(474,100)
April 22, 2010 Executive's recommended budget 1	16,182,300
Average payment	530
Reduce payments by one-third	(5,394,100)
April 22, 2010 Executive's recommended budget 2	10,788,200
Average payment	354

As noted above, the one-third reduction would require a change in the County law. Because the one-third reduction affects the lowest income residents, Council staff suggests putting it on the reconciliation list.

County and State law follow.

**Sec. 20-77. Payment of Supplement.**

The Director of Finance must pay each person who meets certain eligibility standards a Working Families Income Supplement. If the Comptroller of the Treasury agrees, the Director may arrange for the Comptroller to pay the Supplement. To the extent that the Comptroller does not pay the supplement, the Director must pay it directly to each eligible person. (1999 L.M.C., ch. 23, § 1.)

**Sec. 20-78. Eligibility.**

(a) A person is eligible to receive the Working Families Income Supplement 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.

(b) The County Executive, by regulations issued under Method (1), may adopt other eligibility standards. However, those standards must not make any person ineligible to receive the Supplement who would be eligible under subsection (a). (1999 L.M.C., ch. 23, § 1.)

**Sec. 20-79. Amount of Supplement.**

The amount of the Working Families Income Supplement paid to each recipient must equal the amount of any refund the recipient receives from the State earned income credit program. The Executive, by regulations issued under Method (1), may increase the amount of the Supplement. (1999 L.M.C., ch. 23, § 1.)

**Sec. 20-80. Improper Payments; False Statements.**

A person who submits a false or fraudulent application, or withholds material information, to obtain a payment under this Article has committed a Class A violation. In addition, the person must repay the County for all amounts improperly paid and all accrued interest and penalties that would apply to those amounts as if they were overdue taxes. A person who violates this Section is liable for all court costs and expenses of the County in any civil action brought by the County to recover any payment, interest, or penalty. The County may collect any amount due, and otherwise enforce this Article, by any appropriate legal action. (1999 L.M.C., ch. 23, § 1.)

**Sec. 20-81. Administration; Regulations.** The Director may require each eligible person to submit an application for the Working Families Income Supplement, and may take any other action necessary to administer the Supplement. The Executive may issue regulations under Method (1) to implement this Article. (1999 L.M.C., ch. 23, § 1.)

## State of Maryland Earned Income Tax Credit

If you qualify for the **federal earned income tax credit** and claim it on your federal return, you may be entitled to a Maryland earned income tax credit on the state return equal to 50 percent of the federal tax credit. The Maryland earned income tax credit will either reduce or eliminate the amount of the state and local income tax that you owe.

For tax year 2009, the earned income credit is allowed if you meet the following conditions:

You have three or more qualifying children and you earn less than \$43,279 (\$48,279 if married filing jointly).

You have two qualifying children and you earn less than \$40,295 (\$45,295 if married filing jointly).

You have one qualifying child and you earn less than \$35,463 (\$40,463 if married filing jointly).

You do not have a qualifying child and you earn less than \$13,440 (\$18,440 if married filing jointly).

To calculate the amount of your tax credit, complete the State Earned Income Credit Worksheet included in Instruction 18 of the **Maryland tax booklet**.

You may qualify for the Maryland earned income tax credit even if you're not required to file a Maryland tax return. However, you must file a return to claim the state tax credit, using **Form 502** or **503** (or Form 505 or 515 if you are a nonresident).

**Refundable Earned Income Tax Credit** If the earned income tax credit exceeds your Maryland tax liability, you may be entitled to a refund. Complete the Refundable Earned Income Credit Worksheet in Instruction 21 of the tax booklet.

The refundable earned income credit is calculated as 25 percent of your federal earned income credit, less your state income tax liability. If this amount is zero or less, no refund is due. The refundable amount of the credit may not be carried forward to any other tax year.

**Local Earned Income Tax Credit** If you are a Maryland resident who qualifies for the state earned income credit, you may also qualify for a local earned income tax credit. Complete the Local Earned Income Credit Worksheet included in Instruction 19 of the tax booklet. The unused local income tax credit may not be refunded or carried forward to any other tax year.

**Nonresidents, part-year residents** Nonresidents and part-year residents must prorate their earned income credits on Form 505 or 515, based on the ratio of Maryland adjusted gross income to federal adjusted gross income.