

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.

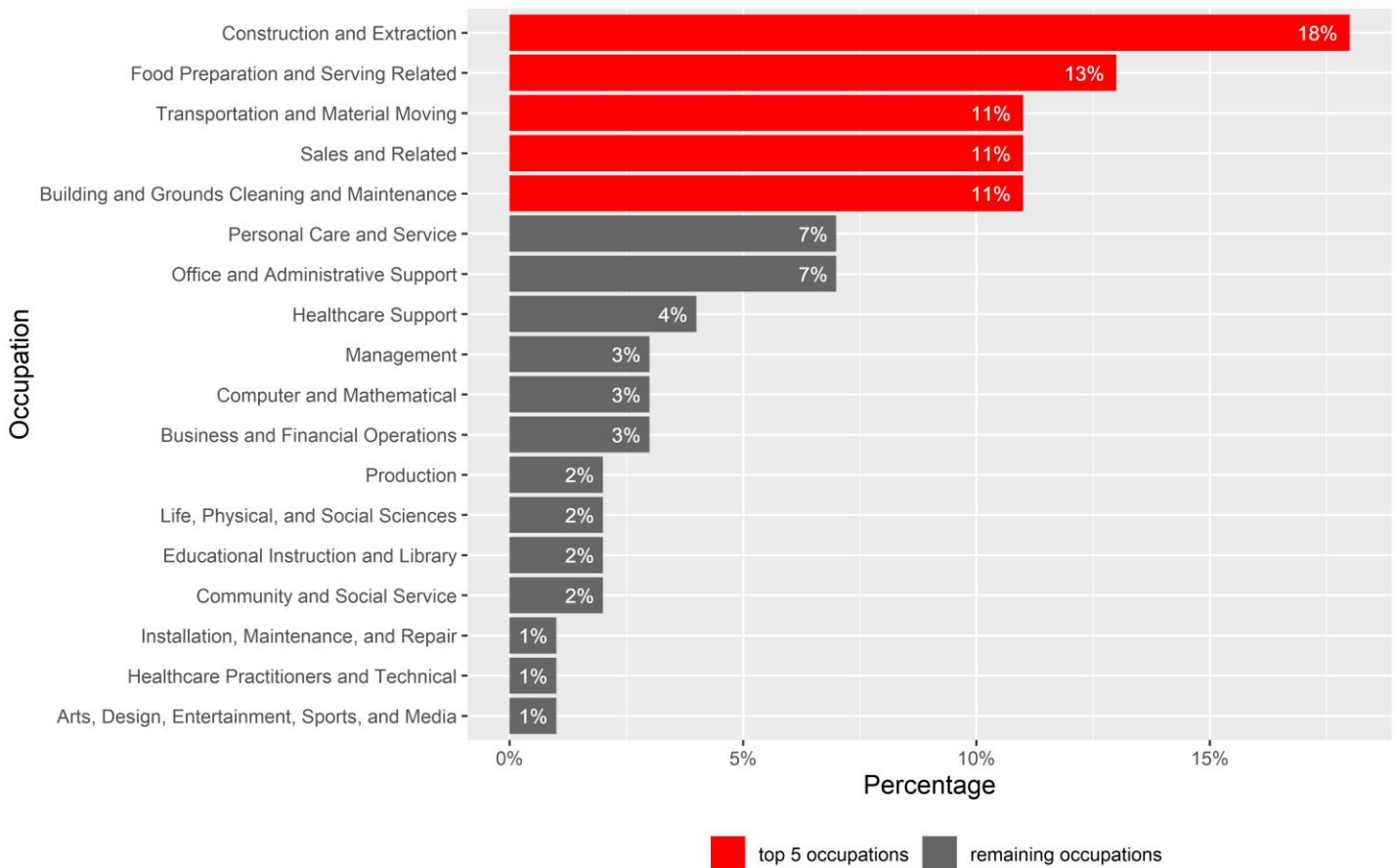
¹⁰ See link: , <https://www.irs.gov/pub/irs-pdf/p596.pdf>.

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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.

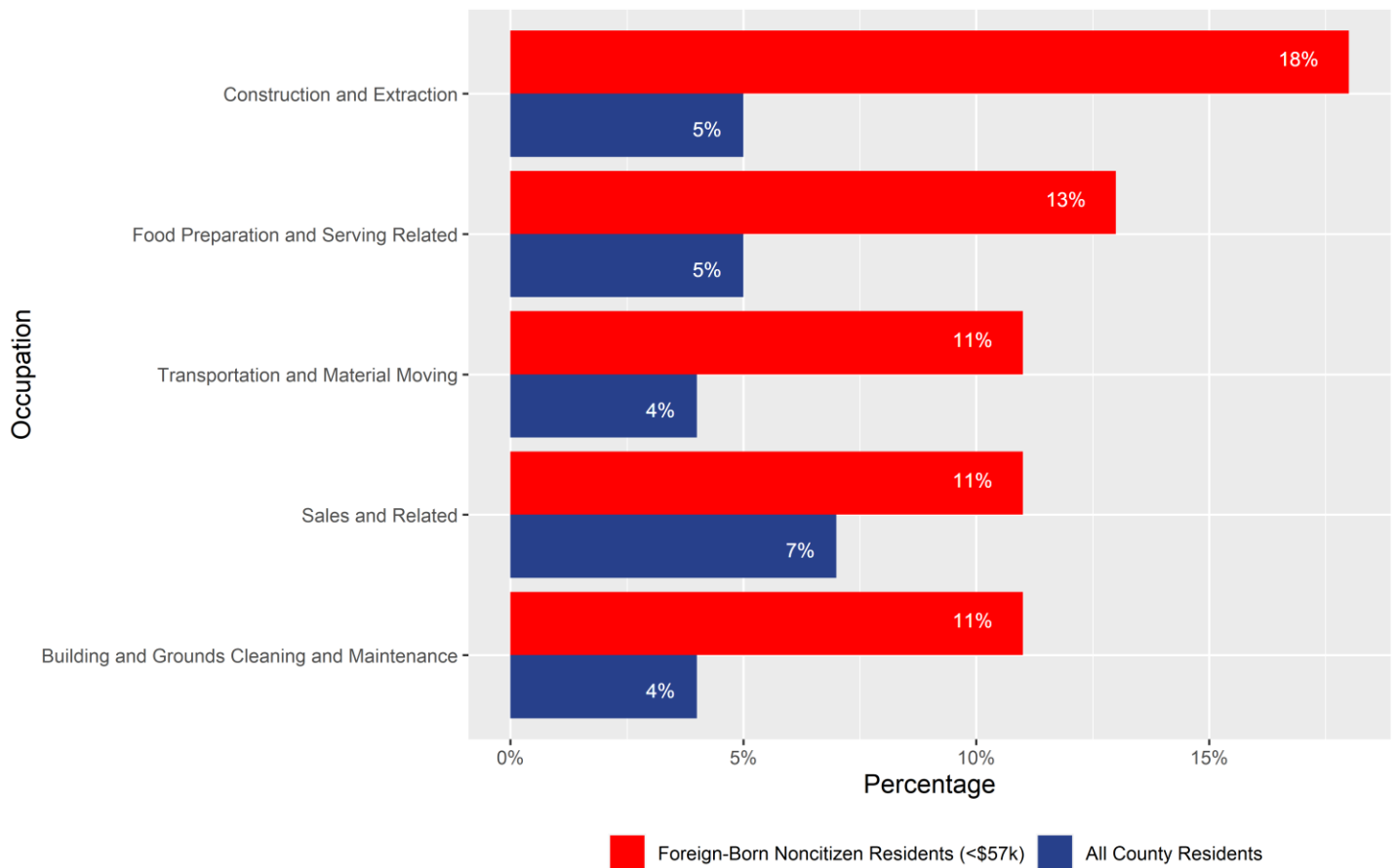
Figure 1. Occupations of Foreign-Born Noncitizen County Residents with Household Income Less Than \$57k (2019)



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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:

- the per year economic benefits of increased household income; and
- 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.

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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.

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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.