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Increasing Michigan's EITC

What is the Federal Earned Income Tax Credit (EITC)

The EITC is a refundable Federal tax credit (meaning you receive a refund even after your tax liability reaches zero) established over 40 years ago with support by both Democrats and Republicans. A taxpayer must work to be eligible. The amount of credit depends on family income and number of dependent children. The maximum federal credit is approximately \$6,800, but averages around \$2,500.

History of the EITC in Michigan

Michigan, like 29 other States, provides a State income tax credit tied directly to the requirements of the Federal credit. First established in 2006, Michigan's EITC has ranged from 20% of the Federal credit (through most of its history), to 6% today. Michigan's EITC provides cash, not a new State program, to Michigan's working families. Very little bureaucracy is required, meaning more of the State's dollars end up supporting families. In 2019, over 730,000 Michigan households with more than four in ten Michigan children received the State EITC.

Why Increase Michigan's EITC?

There are 3 main reasons to support an increase in Michigan's EITC

- The EITC has a proven track record of pulling people into the workforce. Especially these days, as Michigan employers struggle to find workers, the EITC increases the after-tax financial benefit of work. This return-to-work incentive will benefit all employers, but especially restaurants, retailers, and small manufacturers. That's why **twelve local Chamber of Commerces, the Small Business Association of Michigan, the Michigan Manufacturing Association, and the Michigan Restaurant and Lodging Association** support increasing the EITC.
- An increase in the EITC directly supports struggling Michigan families. It provides direct support for those in need - and more relief to those most in need. Research has shown that families use the EITC for basic necessities- repairing homes, maintaining vehicles, food, and rent. Many families use the EITC for just a few years, as a hand up, not a hand out. That's why **the Michigan Catholic Conference, the Michigan Food Bank Council and many local United Ways** support an increase in the EITC.
- Increasing the EITC provides indirect support to local economies. Most of the additional income is spent locally - increasing the prospects for local businesses. A 30 percent state match will pump an extra \$460 million annually into the Michigan economy.



	6% state match	20% state match	30% state match
Typical beneficiary: Single adult worker with 2 children and Income of \$17,300	\$355	\$1,184	\$1,776
Cost of credit (2022)	\$117,000,000	\$389,000,000	\$575,000,000

Michigan Department of Treasury data as calculated by Michigan Future, Inc.;
Senate Fiscal Agency cost analysis.

The EITC is a win for Michigan families, employers, and the overall State economy. It meets all the criteria of good tax policy. It is fair (targeting relief to those most in need), efficient (tied directly as an incentive to work), and simple (no new bureaucracy). Now is the time to increase the ETIC.

Frequently Asked Questions

1) *How do Michigan families apply for the ETIC?*

It's simple. For a Michigan taxpayer, they file with the State and simply apply a percentage of their eligible credit Federal credit.

2) *Who is eligible?*

The EITC phases in, and then out gradually based on household income (avoiding the so called "benefit cliff"). The income limitation ranges from about \$16,000 for a single taxpayer with no children to \$57,000 for a family with 3 or more children. The credit phases out around \$16,000 for a single taxpayer without children at the low end and \$57,000 for married taxpayers with 3 or more children at the high end.

3) *Can the State afford an increase?*

An EITC increase to 30% would reduce revenues by approximately an additional \$460 million per year. In contrast, an equivalent across the board income tax cut would reduce the rate by 0.2%, or an average of \$2 dollars per week for the average Michigan family.

4) *What can the State do to reduce incorrect payments?*

There are things the State should do to reduce incorrect payments, including - increased reporting, increased coordination with for profit and non profit tax preparers to provide greater taxpayer assistance, and increasing Treasury's EITC audit procedures. There are reports showing that nationally over 20% of ETIC payments are made incorrectly. But we should put this in context. First, EITC errors occur primarily because of the complexity of the rules surrounding the credit. Most of them reflect unintentional errors, not fraud. Second, other taxes, for example, reported sole proprietor income, have a much higher incident of underreporting. Finally, on the other side of overpayments, it's estimated that approximately 20% of eligible families never file for the credit.

5) *Shouldn't we be targeting across the board relief relief to all taxpayers?*

Never let good general policy get in the way of specific policy needs. Generally, you can't go wrong with "broad base, low rate". But we are in unusual times. Businesses are struggling to find workers and many Michigan's households are struggling to meet basic necessities. Targeted tax relief can help both - with substantially fewer dollars than an across the board rate reduction.