



Michigan Earned Income Tax Credit Facts

ABOUT THE MICHIGAN EITC

Senate Bill 417, introduced by Sen. Wayne Schmidt, R-Traverse City, would expand our state's current Earned Income Tax Credit, targeted at working families with low income and children, to 30 percent of the federal EITC. It would be the largest tax cut aimed at lower income working families in state history, injecting \$460 million into the state's economy annually.

Michigan's EITC today is just 6% of the federal credit, one of the lowest of the 30 states that have enacted state versions of the EITC. The Michigan EITC began in 2006, when a bipartisan group of legislators in a Republican-controlled legislature and a Democratic governor came together to enact a credit equal to 20 % of the federal credit. In 2011, facing a budget deficit, it was reduced to the current 6%.

Sen. Schmidt's Senate Bill 417 has earned the support of business, religious, policy and service groups around the state. Gov. Gretchen Whitmer also signaled her support for expanding Michigan's EITC in her 2022 State of the State address.

HISTORY OF THE EITC

The federal Earned Income Tax Credit was signed into law by President Gerald R. Ford in 1975 and later expanded by other presidents, including President Ronald Reagan. The EITC is explicitly designed to encourage greater participation in the workforce because it is available only to working households with low incomes. The EITC rewards work, helps families get off welfare and has lifted millions of individuals out of poverty. Because it is tied to employment, the EITC reinforces the values that come with a steady paycheck.

BY THE NUMBERS: MICHIGAN'S EITC TODAY

- Only three of the 31 states that have implemented the EITC have a rate lower than Michigan.
- 11 states have either created or increased their state EITCs in the last year, including Indiana, Missouri, and Oklahoma.

- Nearly 750,000 Michigan households received the state EITC in 2019 – impacting nearly one million Michigan children – putting nearly \$110,000,000 back into Michigan’s economy. Sen. Schmidt’s proposal would boost that significantly, making it the largest working family tax cut in state history.
- Benefits phase out at higher incomes, and more benefits go to families with children, helping address the cost of raising a family in our state.

WHAT WOULD EXPANDING THE MICHIGAN EITC DO?

- Expanding the Michigan EITC to 30% would boost the average working family’s income by nearly \$750, injecting an estimated \$460,000,000 into Michigan’s economy while boosting local communities recovering from the COVID-19 pandemic.
- An increase in the EITC directly supports struggling Michigan families. It provides direct support for those in need – impacting nearly one million Michigan children. Research has shown that families use the EITC for basic necessities, such as repairing homes, maintaining vehicles, buying food, and paying rent. That’s why the Michigan Catholic Conference, the Michigan Food Bank Council and many local United Ways support an increase in the 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, especially restaurants, retailers, and small manufacturers. That’s why twelve local Chambers of Commerce, the Small Business Association of Michigan, the Michigan Manufacturing Association, and the Michigan Restaurant and Lodging Association support increasing the EITC.
- This boost in economic activity would happen in local economies, with research showing that the money gets spent locally at places like grocery stores, small businesses, pharmacies, and car repair shops.
- Business groups support the EITC because they understand that many workers need a boost to be able to afford car repairs, child care, clothing and more to be ready to work. At a time when many employers are having difficulty filling available jobs, the EITC has a proven track record of pulling people into the workforce.
- Michigan’s EITC can be expanded with no additional bureaucracy, because the state would incur virtually no costs to determine eligibility. This means more of Michigan’s dollars end up supporting hard-working families. Those that are eligible for the federal credit are also eligible for the state credit.

- A 2009 report by the Anderson Economic Group estimated that every dollar awarded through the state EITC generates \$1.67 in new economic activity.
- Residents of rural counties are more likely to benefit from an expanded EITC than residents of urban counties—especially in counties located in the northern Lower Peninsula, according to a 2019 study the Michigan State University.

Supporting materials:

- (8/25/2021) IRS.gov – [Statistics for Tax Returns with EITC](#)
- (8/13/2009) Anderson Economic Group – [Economic Benefits of the Earned Income Tax Credit in Michigan](#)
- (October 2020) National Bureau of Economic Research – [Employment Effects of the Earned Income Tax Credit: Taking the Long View](#)
- (8/14/2021) The Detroit News – [Restore earned income tax credit to help Michigan recover](#)
- (February 2021) Michigan League for Public Policy – [The Earned Income Tax Credit: Building Opportunity for Michigan’s Workers](#)
- (January 2022) Michigan League for Public Policy – [It’s Time To Expand Michigan’s EITC](#)
- (10/5/2021) Michigan Future, Inc.—[The Business Case for a Big Earned Income Tax Credit Expansion](#)
- (April 2022) National Conference of State Legislatures – [Earned Income Tax Credit Overview](#)