



Michigan League FOR Human Services

Oct. 29, 2008

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Michigan tax policy slams the poor, report finds *State status should improve with new tax credit*

In 2007, Michigan was one of only 10 states that taxed working families living in deep poverty, a new report released today concludes.

The report by the Center on Budget and Policy Priorities, a Washington D.C.-based policy group, named Michigan as one of the worst states for taxing those at the low end of the income ladder.

It is one of nine states to tax a two-parent family of four earning less than three-quarters of the poverty line (\$15,902), and one of just six to tax a single-parent family with two children earning less than three-quarters of the poverty line (\$12,398).

The picture should brighten, however, when Michigan families pay their 2008 taxes early next year. For the first time, they'll be able to claim the Michigan Earned Income Tax Credit (EITC), which was signed into law in 2006.

"There's a silver lining in this report," said Sharon Parks, president and CEO of the Michigan League for Human Services. "Our status as a state that overtaxes the poor should improve in future years because of the Earned Income Tax Credit. This reinforces the need for the tax credit -- and the need to make sure it stays in place as we face another tough year and lawmakers look for ways to cut the budget. We will be anxious to see next year's ranking."

The state EITC is a policy that rewards work and helps low-income workers with a refundable tax credit, allowing them to keep more of what they earn. The state EITC is 10 percent of the existing federal Earned Income Tax Credit in 2008. It rises to 20 percent in 2009 and beyond.

Among the examples cited in the report, which covers the 2007 tax year, are the following:

- A single-parent family of three in Michigan living at the poverty line of \$16,530, paid \$206 in income taxes; only Hawaii and Alabama were higher out of the 42 states that levy income taxes;
- A two-parent family of four in Michigan living at the poverty line of \$21,203 paid \$257 in income taxes; only four states were higher;

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- Michigan levied an income tax of \$131 for a single-parent family of three working a full-time minimum-wage job. Only Hawaii levied a higher tax on family earning the minimum wage.

Legislation introduced earlier this year sought to freeze the Michigan Earned Income Tax Credit because of a shortfall in state revenues. The League and other groups opposed a freeze on the credit.

“We’ve seen tax cut after tax cut after tax cut given to businesses. It would be unconscionable to freeze the one tax credit that is there to help low-income families at a time when they need it so desperately,” Parks said.

Parks called for an expansion of the state EITC to 25 percent of the value of the federal EITC. She said the report makes it clear that along with the EITC, other tax policies aimed at injecting fairness into the state tax structure must be enacted.

“We think it’s time for the state to modernize its tax structure and look at a graduated income tax that will help working families and keep needed public services running,” she said.

Michigan is one of just seven states with a flat income tax, meaning taxpayers pay the same rate no matter what their income.

The report, *The Impact of State Income Taxes on Low-Income Families in 2007*, can be found at www.cbpp.org.

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The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs.

The Michigan League for Human Services is a statewide, nonprofit, nonpartisan policy and advocacy group for low-income citizens. It has more than 1,500 individual and organizational members from business, labor, human service professions, faith-based organizations and concerned citizens.

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