



Michigan League FOR Human Services

September 2009

## Michigan's State Earned Income Tax Credit: Year One

With the first tax year for Michigan's new Earned Income Tax Credit (EITC) now over, data show that approximately 702,000 filers received the credit. The average credit for a single parent with two children working full time at minimum wage was approximately \$478. Since it is likely that those receiving the credit spent some or most of their refund in their communities, the credit also served as a stimulus to local economies, with the state paying out just under \$144 million.

The new numbers come as good news at a time when local economies across Michigan are suffering. As many workers in Michigan have lost their jobs or had their hours cut, the refund likely helped them pay bills or meet other expenses that they otherwise would not have been able to pay. Further, many households that receive the EITC use the refund to purchase retail items for their homes or to maintain or purchase vehicles, expenditures that create further economic activity and help local businesses create or maintain jobs. A new report from The Anderson Economic Group estimates that for every dollar of EITC received, \$1.67 is generated in new economic activity in local communities.<sup>1</sup>

### Michigan's EITC Helps Working Families and the Economy

The Michigan Earned Income Tax Credit (EITC) was signed into law on September 22, 2006. Like the federal EITC, it has enjoyed bipartisan support because it rewards work, supplements low wages, and helps a segment of the state's population that has not benefited from other recent tax measures. The Michigan credit is based on the federal credit, so it is easy for tax filers to calculate (it requires the filer to simply calculate a percentage of his or her federal EITC on the Michigan tax form). Because it is calculated as a percentage of the federal credit, it is also relatively easy for the state to administer.

Like the federal credit, those with very little annual earnings have a smaller refund, with the amount becoming larger the more a family earns until it hits the maximum amount. The amount then begins to decrease at a certain point, so that households in the upper levels of eligibility have a smaller refund the more they earn, until they reach the eligibility limit.

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<sup>1</sup> Anderson Economic Group, *Economic Benefits of the Earned Income Tax Credit in Michigan*, East Lansing, MI, 2009.

The federal tax credit, and by extension the state credit, have three ranges: 1) the phase-in range where EITC benefits increase with earnings; 2) the flat range where the maximum EITC amount remains constant; and 3) the phase-out range where the maximum EITC benefit is reduced as earnings increase. For example, for tax year 2008, a single working parent with two children received a federal tax credit of approximately 39 percent for every dollar earned up to \$12,100. The same working parent received the maximum credit of \$4,824 if his or her earnings ranged from \$12,100 to \$15,750. The benefit phase-out range began for the single parent with two children at \$15,750 in earnings, with the benefit percentage being reduced until it was totally exhausted at an income of \$38,600.

The state earned income credit is considered an effective poverty-fighting tool. For many low-income workers the only tax credits available are the earned income credit, the home heating credit and the homestead property tax credit.

The earned income credit encourages and rewards work, does not have a “marriage penalty,” and is easy to calculate. It is targeted to poor and low-income families and individuals, as well as middle-income families whose income is close to the amount considered low-income.<sup>2</sup> Such families are often squeezed, and the credit can enable them to pay for things they need. The following table shows the range of earnings based on Adjusted Gross Income (AGI) that a household can have in the 2009 tax year and still receive the credit, and that amount as a percentage of the poverty threshold and of two times the poverty threshold (the amount considered to be low-income).

<b>Maximum Income Eligibility for the EITC--2009 Tax Year</b>						
	<b>Single</b>			<b>Married Filing Jointly</b>		
<b># of Qualifying Children</b>	<b>AGI must be less than:</b>	<b>Percent of Poverty Threshold*</b>	<b>Percent of Amount Considered "Low Income"</b>	<b>AGI must be less than:</b>	<b>Percent of Poverty Threshold*</b>	<b>Percent of Amount Considered "Low Income"</b>
4	\$43,279	171%	86%	\$48,279	168%	84%
3	\$43,279	198%	99%	\$48,279	188%	94%
2	\$40,295	232%	116%	\$45,295	207%	104%
1	\$35,463	239%	119%	\$40,463	233%	117%
0	\$13,440	120%	60%	\$18,440	128%	64%

\*Based on 2008 poverty thresholds from the U.S. Census Bureau

The federal and Michigan EITC help not only Michigan families, but the Michigan economy as a whole. (For a table of estimated state EITC refunds in each county based on Tax Year 2007 federal EITC receipts, please see the appendix.)

<sup>2</sup> Poor workers and families have household income below the poverty threshold. Low-income workers and families have income above the poverty threshold, but less than 200% of the poverty threshold.

Michigan's EITC is slated to provide even more needed assistance to families and stimulus to economies when tax year 2009 tax returns are filed. The EITC benefit is scheduled to increase from 10 percent of the federal credit to 20 percent, and stay at that level in succeeding years. It should be noted that, as state budget negotiations continue and policymakers search for savings and revenue to eliminate a large deficit, suggestions have been made to freeze the EITC at 10 percent, or only raise the benefit to 15 percent of the federal credit.

Such a delay in the scheduled increase would clearly have a negative impact on the low-and moderate-income working families, and economically distressed communities. As Michigan's economic woes continue unabated, many families and local economies need the extra boost that comes from the earned income tax credit.

The chart below outlines the decline in benefits that would occur if the state EITC is not implemented as scheduled.

<b>Tax Year 2009 Maximum EITC Credits</b>				
<b># of Qualifying Children</b>	<b>Maximum Federal Credit</b>	<b>Maximum State Credit if Increased to 20% of Federal Credit, as Scheduled</b>	<b>Maximum State Credit if Increased to 15% of Federal Credit</b>	<b>Maximum State Credit if Frozen at 10% of Federal Credit</b>
3 or more	\$5,657	\$1,131	\$849	\$566
2	\$5,028	\$1,006	\$754	\$503
1	\$3,043	\$ 609	\$456	\$304
0	\$ 457	\$ 91	\$ 69	\$ 46

Michigan is now one of 23 states plus the District of Columbia that offer a state EITC. In addition, local governments in Montgomery County, Md., San Francisco and New York City, offer their own version of the tax credit. EITCs have been enacted in states controlled by both Republicans and Democrats and have been supported by both business groups and social service advocates.

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## Statewide and County Impact of the Earned Income Tax Credits (EITCs)

County Name	Federal EITC, TY 2007			Michigan EITC (Estimated)*			
	Number of EITC Returns	Amount added to economy	Average EITC Refund	TY 2008		TY 2009 and Beyond	
				Amount added to economy	Average EITC Refund	Amount added to economy	Average EITC Refund
<b>Michigan</b>	<b>710,185</b>	<b>\$1,402,591,074</b>	<b>\$1,975</b>	<b>\$140,259,107</b>	<b>\$197</b>	<b>\$280,518,215</b>	<b>\$395</b>
Alcona	744	\$1,362,974	\$1,832	\$136,297	\$183	\$272,595	\$366
Alger	589	\$1,001,766	\$1,701	\$100,177	\$170	\$200,353	\$340
Allegan	6,253	\$11,477,763	\$1,836	\$1,147,776	\$184	\$2,295,553	\$367
Alpena	2,290	\$4,042,564	\$1,765	\$404,256	\$177	\$808,513	\$353
Antrim	1,727	\$3,083,299	\$1,785	\$308,330	\$179	\$616,660	\$357
Arenac	1,604	\$2,879,808	\$1,795	\$287,981	\$180	\$575,962	\$359
Baraga	641	\$1,188,347	\$1,854	\$118,835	\$185	\$237,669	\$371
Barry	3,039	\$5,537,940	\$1,822	\$553,794	\$182	\$1,107,588	\$364
Bay	8,210	\$14,779,015	\$1,800	\$1,477,902	\$180	\$2,955,803	\$360
Benzie	1,256	\$2,248,916	\$1,791	\$224,892	\$179	\$449,783	\$358
Berrien	14,226	\$29,036,639	\$2,041	\$2,903,664	\$204	\$5,807,328	\$408
Branch	3,620	\$6,747,437	\$1,864	\$674,744	\$186	\$1,349,487	\$373
Calhoun	11,888	\$23,503,115	\$1,977	\$2,350,312	\$198	\$4,700,623	\$395
Cass	3,357	\$6,229,587	\$1,856	\$622,959	\$186	\$1,245,917	\$371
Charlevoix	2,038	\$3,802,609	\$1,866	\$380,261	\$187	\$760,522	\$373
Cheboygan	2,248	\$4,222,835	\$1,878	\$422,284	\$188	\$844,567	\$376
Chippewa	2,847	\$5,273,968	\$1,852	\$527,397	\$185	\$1,054,794	\$370
Clare	3,001	\$5,616,541	\$1,872	\$561,654	\$187	\$1,123,308	\$374
Clinton	2,576	\$4,559,014	\$1,770	\$455,901	\$177	\$911,803	\$354
Crawford	1,103	\$2,138,066	\$1,938	\$213,807	\$194	\$427,613	\$388
Delta	2,791	\$4,733,325	\$1,696	\$473,333	\$170	\$946,665	\$339
Dickinson	1,880	\$3,288,267	\$1,749	\$328,827	\$175	\$657,653	\$350
Eaton	6,773	\$12,197,373	\$1,801	\$1,219,737	\$180	\$2,439,475	\$360
Emmet	2,501	\$4,430,008	\$1,771	\$443,001	\$177	\$886,002	\$354
Genesee	39,706	\$81,489,797	\$2,052	\$8,148,980	\$205	\$16,297,959	\$410
Gladwin	2,024	\$3,705,718	\$1,831	\$370,572	\$183	\$741,144	\$366
Gogebic	1,202	\$1,997,706	\$1,662	\$199,771	\$166	\$399,541	\$332
Grand Traverse	5,922	\$10,094,275	\$1,705	\$1,009,428	\$170	\$2,018,855	\$341
Gratiot	3,244	\$6,134,727	\$1,891	\$613,473	\$189	\$1,226,945	\$378
Hillsdale	3,479	\$6,595,980	\$1,896	\$659,598	\$190	\$1,319,196	\$379
Houghton	2,286	\$3,720,187	\$1,627	\$372,019	\$163	\$744,037	\$325
Huron	2,501	\$4,323,123	\$1,729	\$432,312	\$173	\$864,625	\$346
Ingham	20,532	\$38,326,040	\$1,867	\$3,832,604	\$187	\$7,665,208	\$373
Ionia	4,182	\$7,655,441	\$1,831	\$765,544	\$183	\$1,531,088	\$366
Iosco	2,163	\$4,002,366	\$1,850	\$400,237	\$185	\$800,473	\$370
Iron	891	\$1,552,501	\$1,742	\$155,250	\$174	\$310,500	\$348
Isabella	3,810	\$6,601,016	\$1,733	\$660,102	\$173	\$1,320,203	\$347
Jackson	11,739	\$22,480,892	\$1,915	\$2,248,089	\$192	\$4,496,178	\$383
Kalamazoo	16,221	\$29,578,865	\$1,823	\$2,957,887	\$182	\$5,915,773	\$365
Kalkaska	1,581	\$3,108,390	\$1,966	\$310,839	\$197	\$621,678	\$393
Kent	42,535	\$81,991,532	\$1,928	\$8,199,153	\$193	\$16,398,306	\$386
Keweenaw	124	\$182,026	\$1,468	\$18,203	\$147	\$36,405	\$294



## Statewide and County Impact of the Earned Income Tax Credits (EITCs)

County Name	Federal EITC, TY 2007			Michigan EITC (Estimated)*			
	Number of EITC Returns	Amount added to economy	Average EITC Refund	TY 2008		TY 2009 and Beyond	
				Amount added to economy	Average EITC Refund	Amount added to economy	Average EITC Refund
Lake	861	\$1,647,511	\$1,913	\$164,751	\$191	\$329,502	\$383
Lapeer	5,170	\$9,520,455	\$1,841	\$952,046	\$184	\$1,904,091	\$368
Leelanau	849	\$1,333,984	\$1,571	\$133,398	\$157	\$266,797	\$314
Lenawee	6,524	\$11,740,074	\$1,800	\$1,174,007	\$180	\$2,348,015	\$360
Livingston	5,676	\$9,239,812	\$1,628	\$923,981	\$163	\$1,847,962	\$326
Luce	456	\$860,891	\$1,888	\$86,089	\$189	\$172,178	\$378
Mackinac	926	\$1,593,451	\$1,721	\$159,345	\$172	\$318,690	\$344
Macomb	48,949	\$91,234,675	\$1,864	\$9,123,468	\$186	\$18,246,935	\$373
Manistee	1,810	\$3,236,954	\$1,788	\$323,695	\$179	\$647,391	\$358
Marquette	3,962	\$6,261,379	\$1,580	\$626,138	\$158	\$1,252,276	\$316
Mason	2,275	\$4,226,051	\$1,858	\$422,605	\$186	\$845,210	\$372
Mecosta	2,834	\$5,079,364	\$1,792	\$507,936	\$179	\$1,015,873	\$358
Menominee	1,743	\$2,989,482	\$1,715	\$298,948	\$172	\$597,896	\$343
Midland	4,894	\$8,655,461	\$1,769	\$865,546	\$177	\$1,731,092	\$354
Missaukee	1,063	\$2,002,731	\$1,884	\$200,273	\$188	\$400,546	\$377
Monroe	8,564	\$15,748,166	\$1,839	\$1,574,817	\$184	\$3,149,633	\$368
Montcalm	5,176	\$9,652,127	\$1,865	\$965,213	\$186	\$1,930,425	\$373
Montmorency	874	\$1,566,804	\$1,793	\$156,680	\$179	\$313,361	\$359
Muskegon	15,264	\$30,134,086	\$1,974	\$3,013,409	\$197	\$6,026,817	\$395
Newago	3,382	\$6,394,044	\$1,891	\$639,404	\$189	\$1,278,809	\$378
Oakland	56,676	\$101,379,875	\$1,789	\$10,137,988	\$179	\$20,275,975	\$358
Oceana	2,375	\$4,720,219	\$1,987	\$472,022	\$199	\$944,044	\$397
Ogemaw	1,780	\$3,267,385	\$1,836	\$326,739	\$184	\$653,477	\$367
Ontonagon	515	\$729,741	\$1,417	\$72,974	\$142	\$145,948	\$283
Oceola	2,195	\$4,104,390	\$1,870	\$410,439	\$187	\$820,878	\$374
Oscoda	596	\$1,080,650	\$1,813	\$108,065	\$181	\$216,130	\$363
Otesgo	1,993	\$3,820,125	\$1,917	\$382,013	\$192	\$764,025	\$383
Ottawa	12,848	\$23,032,408	\$1,793	\$2,303,241	\$179	\$4,606,482	\$359
Presque Isle	1,063	\$1,860,268	\$1,750	\$186,027	\$175	\$372,054	\$350
Roscommon	2,166	\$3,971,095	\$1,833	\$397,110	\$183	\$794,219	\$367
Saginaw	17,865	\$36,279,713	\$2,031	\$3,627,971	\$203	\$7,255,943	\$406
Saint Clair	11,207	\$20,267,245	\$1,808	\$2,026,725	\$181	\$4,053,449	\$362
Saint Joseph	4,965	\$9,278,384	\$1,869	\$927,838	\$187	\$1,855,677	\$374
Sanilac	3,444	\$6,410,803	\$1,861	\$641,080	\$186	\$1,282,161	\$372
Schoolcraft	642	\$1,210,048	\$1,885	\$121,005	\$188	\$242,010	\$377
Shiawassee	5,204	\$9,578,488	\$1,841	\$957,849	\$184	\$1,915,698	\$368
Tuscola	4,399	\$8,166,719	\$1,856	\$816,672	\$186	\$1,633,344	\$371
Van Buren	6,479	\$12,396,786	\$1,913	\$1,239,679	\$191	\$2,479,357	\$383
Washtenaw	15,227	\$26,971,997	\$1,771	\$2,697,200	\$177	\$5,394,399	\$354
Wayne	182,806	\$418,251,585	\$2,288	\$41,825,159	\$229	\$83,650,317	\$458
Wexford	3,144	\$5,773,890	\$1,836	\$577,389	\$184	\$1,154,778	\$367

\*Estimates for TY 2008 are based on 10 percent of the 2007 federal EITC, and for TY 2009 and beyond on 20 percent of the 2007 federal EITC. Because the federal EITC refund amount is increased each year, the actual figures will probably be higher.

Source: Internal Revenue Service, Michigan SPEC Office (2007 Database)

Peter/2007Total&EITCRinsDollars&AvgbyCount