



## Fact Sheet: The Michigan EITC and Taxes Paid by Working Families

Even with a state EITC, low-income families pay more of their income in state and local taxes than the state's wealthiest families.

### What is the Michigan EITC?

Michigan's Earned Income Tax Credit (EITC) is a refundable tax credit for working families based on the federal EITC. You must earn income to qualify. The federal EITC was originally created to encourage workforce participation, and to prevent federal income and payroll taxes from pushing low-income families further into poverty. This function is even more vital at the state level, where it provides some state income tax relief, and for many families can offset a portion of sales and property tax payments as well.

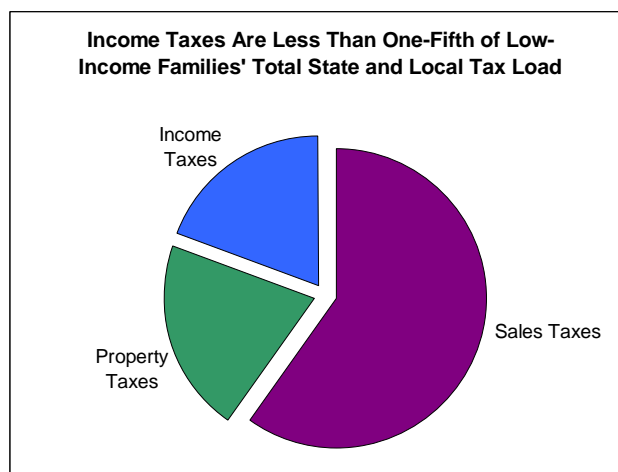
### How does Michigan's tax system affect families of different means?

Even with the EITC, low-income Michiganders pay a higher percentage of their income in state and local taxes than do higher income families. Families with incomes between \$15,000 and \$32,000 pay an average of 10.1 percent of their income in state and local taxes. By contrast, families earning between \$54,000 and \$86,000 pay 9.4 percent, and those earning over \$365,000 pay just 5.6 percent. (Source: Institute on Taxation and Economic Policy, ITEP)

### Why do low-income families pay so much in state and local taxes?

Low-income families and EITC claimants, like all Michigan residents, pay sales and property taxes in addition to personal income taxes. Even renters pay property taxes indirectly through higher rent bills. Unfortunately, sales taxes in particular fall heavily on the state's most vulnerable families. Low-income residents pay substantially more in sales tax, as a share of their income, than do higher income taxpayers—this is the definition of a “regressive” tax.

As a result of this regressivity, state income taxes make up only a small fraction of the total state and local taxes paid by low-income Michiganders. As the chart below demonstrates, before factoring in the EITC, income taxes comprise less than one-fifth of the total state and local taxes paid by the poorest 40 percent of Michigan residents. Sales taxes, by contrast, make up a whopping 60 percent of these families' tax bills. Property taxes account for the remaining 20 percent.



Source: Institute on Taxation and Economic Policy

### How does the EITC address this unfairness?

The greatest strength of the Michigan EITC is its “refundability”—meaning that the credit is available in its entirety even to those families with little or no state income tax liability. This is important because it allows the EITC to be used to offset not only state personal income tax liability, but also a modest amount of the sales and property taxes paid by these families. Even with the relief provided by the EITC, however, these families still pay more of their income in state and local taxes than the state's wealthiest taxpayers.

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