



Michigan League FOR Human Services
CELEBRATING 100 YEARS OF RESEARCH AND ADVOCACY

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It's only a tax break if you forget about last year's tax shift

The income tax break passed by the House Tax Policy Committee today will make only a very small dent in offsetting overall tax increases for low- and moderate-income families though it will help high-income households, a new analysis finds.

"While this is being touted as a tax break, for most people it is not a decrease. Most of us will barely notice this change in light of the big increases that hit low- and moderate-income households the hardest starting in tax year 2012," said Gilda Z. Jacobs, president & CEO of the Michigan League for Human Services.

Gov. Snyder and legislative leaders passed at least a \$1.7 billion tax break for businesses in 2011, helping to pay for it with a \$1.4 billion tax increase on individuals.

Jacobs argued that the \$90 million price tag for the tax rollback would be better spent:

- *Implementing the governor's Infant Mortality Summit recommendations to combat Michigan's high infant mortality rate at a cost of just \$16 million. According to Kids Count, Michigan is among the 10 worst states in the country with African American infants at triple the risk of white infants.

- *Expanding Healthy Kids Dental nearly statewide to the half-million Medicaid-eligible children who may otherwise lack access to dental care.

- *Sending 24,000 preschoolers to high-quality early education centers.

- *Restoring the Earned Income Tax Credit to 11 percent of the federal credit. It will drop to just 6 percent of the federal credit, down from 20 percent, starting in tax year 2012.

"If lawmakers approved any of these expenditures, we think they could enter the election season with something to truly crow about," Jacobs added. "Spending the \$90 million on investing in our future is the better way to go."

The latest version of the income tax changes would move up the scheduled income tax reduction three months early and expand the personal exemption for one-fourth of the tax year. (If the entire \$90 million were used instead to increase the personal exemption for half the year, it would be more equitable to low- and moderate-income households as the income tax rate drop favors higher-income families.)

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As illustrated in the chart, a League analysis shows that the new legislation will save a family of three earning \$25,000 just \$11 for three months in tax year 2012. But the overall tax increase approved last year cost them \$40 for the same period, for a **net tax increase of \$29**. On the other end, a family earning \$899,000, would get a **\$230 tax break** from the new proposals. Last year's tax changes only cost that households \$2 for the quarter, so they will get a **tax decrease of \$228**.

Higher Income Families Gain Most From Tax Rate Cut

Assuming Oct. 1 2012 Start for One-Quarter Year Tax Cut (Family of Three)

	Income Groups			
	<i>Low</i>	<i>Middle</i>	<i>Upper Middle</i>	<i>High</i>
Income	\$25,000	\$66,000	\$107,000	\$899,000
Savings From Tax Changes	(\$11)	(\$22)	(\$32)	(\$230)
3 Months Tax Increase	\$40	\$129	\$115	\$2
What is the Net Tax Change?	\$29	\$107	\$83	(\$228)

Chart by Michigan League for Human Services

Source of average 2011 tax change by income group from the Institute for Taxation And Economic Policy, (ITEP), 2012.

The rollback is tied to the news that revenues are up for this fiscal year. General Fund revenues, however, will fall in Fiscal Year 2013 as business tax revenues plummet.

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The Michigan League for Human Services is a statewide, nonprofit, nonpartisan policy and advocacy group dedicated to achieving economic security for all in Michigan. It is celebrating 100 years of research and advocacy in 2012.

Save the data! The League's 100th year gala will be 5:30-8:30 p.m. Oct. 10 at the Michigan Historical Museum.