



**Testimony Presented to the
House Roads and Economic Development Committee
HB 4609 – EITC Elimination**

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Good morning, Chair Farrington and members of the committee. I'm Gilda Jacobs, President and CEO of the Michigan League for Public Policy. The League's mission is to promote economic security and well-being for all people in Michigan through the policymaking process. Thank you for this opportunity to testify.

House Bill 4609, which would eliminate the Michigan Earned Income Tax Credit, is a tax hike on 820,000 working families who are raising 1 million children. It punishes working families who are playing by all the rules but still not getting ahead.

These are people in every community in Michigan who work hard but struggle to make ends meet on low wages. Elimination of the state EITC would increase poverty for thousands of Michiganders, a legacy no one should aspire to.

Michigan shouldn't pave its roads on the backs of its lowest earning working families.

We should instead strengthen the state EITC. By boosting families' incomes, the EITC improves odds for success. It improves maternal and infant health and reduces the likelihood of child abuse or neglect. It helps children do better and go farther in school and earn more as adults. It also reduces the need for public assistance. Those are outcomes we should be seeking. But eliminating the state EITC will put them at risk.

For those who've made misguided claims about the EITC, let's be clear: The Earned Income Tax Credit can be claimed only by people who work. It is a hand up for people paid low-wages, not a handout. If someone doesn't work and pay taxes, they can't receive the credit.

The people receiving this credit pay a lot in taxes. In fact, households eligible for the tax credit pay a greater share of their income in state and local taxes than wealthy people do, and cutting this tax credit will make this problem worse. With the repeal of the state EITC, those making less than \$17,000 and those between \$17,000 and \$34,000 will be paying almost 10% of their incomes in total state and local taxes – double the 5.1% paid by the top 1% of earners.

The EITC increases work effort and strengthens Michigan's economy with families spending the credit at local businesses in their communities, spurring economic activity. A study by MSU researchers of 115 low-income recipients of the credit found that they used a quarter of the money paying off debt and bills and another quarter on current bills. A fifth is spent on things that will help them improve their situation like cars to drive to work or education to get a better job.

If the Michigan EITC is eliminated, it will be the second time in five years that taxes have been raised on low-wage working families. In 2011 the EITC was cut by \$285 million, while businesses and corporations were given a \$1.65 billion tax break. Meanwhile, our economic recovery has not reached all of us. Nearly one in four Michigan children still lives in poverty. At its previous level of 20% of the federal EITC, the state credit can lift more than 20,000 working families and their children above the poverty line and ease hardship for hundreds of thousands more. At the current 6% it still lifts about 7,000 working families and their children out of poverty.

Claims of fraudulent credits are greatly exaggerated. There are always a few bad apples out there looking to get something they don't deserve. We should root those people out AND we should support hard working families who aren't getting by because they're paid low wages.

Independent studies show that most errors occur because of the complexity of the credit's rules. They are unintentional mistakes, not fraud. For example, the EITC has strict rules for separated or divorced couples, and for those who can claim a child as a dependent. Further, tax preparers they pay to help file their taxes often don't understand these rules. These are simply honest mistakes made by average working people because they misunderstand the very complicated eligibility rules of the credit.

Those few people who intentionally abuse the tax credit face stiff monetary penalties. To put things in perspective, problems with the EITC are far less pervasive and less costly than similar problems in other parts of our tax code. For example, 56% of business income went unreported in 2006, costing \$122 billion.

Saying that eliminating our state EITC is necessary to fund the state's road plan is like trying to fill the Grand Canyon with a bucket of sand. The \$117 million from the credit is a drop in the bucket of a \$1.2 billion road plan but a huge amount to working families and children struggling with low wages. Yes, the credit may seem minimal to you, but to a single mom raising two kids on minimum wage, this is the equivalent of an extra paycheck or two. It helps her pay for housing, child care and transportation so that she can keep working.

I encourage you to abandon efforts to eliminate the Michigan EITC and to instead restore the credit to its previous level. Robbing poor Peter to pay Paul makes little sense, while restoration of the credit would benefit hundreds of thousands of Michigan's low-wage families and their children, as well as local businesses.