



2020 BUDGET PRIORITY: STRENGTHEN THE STATE EITC

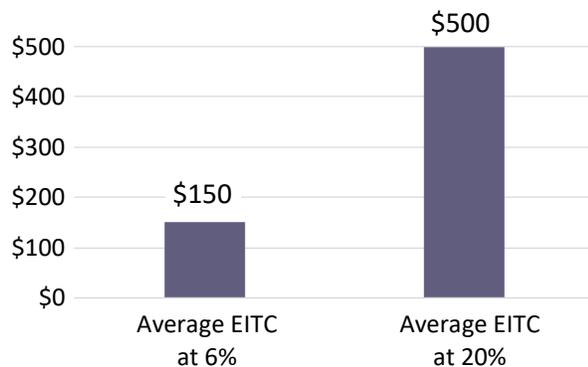
LEAGUE RECOMMENDATION:

To help families keep working and put money back into local economies, modernize the state’s Earned Income Tax Credit (EITC) to fit the current economy, incrementally increase it to its former level of 20% of the federal credit or beyond, and expand to allow young childless workers to qualify.

BACKGROUND:

Michigan, along with 28 other states and the District of Columbia, supplements the federal EITC with a state credit. However, Michigan’s credit, at 6% of the federal credit, is one of the weakest state credits nationwide. As recently as 2011, Michigan taxpayers were allowed to claim a credit equal to 20% of their federal EITCs. **In tax year 2017, about 748,500 working families received a state EITC at an average of \$150.** Families with low incomes raising children often receive a larger credit. Had the credit not been reduced, Michigan families receiving the EITC would have seen an average of \$350 more.

WORKING FAMILIES WOULD HAVE RECEIVED AN AVERAGE OF \$350 MORE IF THE EITC WERE RESTORED TO 20%



Source: Estimates using Michigan Department of Treasury data

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WHY DOES IT MATTER?

The EITC rewards work and helps keep people working, spurring local economies. The EITC is only available to people who have earned income through work or self-employment. EITC funds are used to pay for work supports—like transportation costs or child care—or daily necessities. Because the credit is refundable, this is money that is spent in the local economies, and without the EITC likely would not be spent. In 2017, about \$112 million was put back into local economies by virtue of the EITC.

The EITC is a proven-effective anti-poverty tool. The EITC is targeted to people with low to moderate incomes and helps pull families above the poverty line. Nationwide, in 2016, the federal EITC kept 5.8 million people—nearly half of them children—out of poverty. State EITCs build on this. In 2015, Michigan’s EITC alone pulled more than 6,550 taxpayers above poverty. However, at its height, a state EITC equal to 20% of the federal credit pulled over 22,000 Michigan taxpayers out of poverty. Additionally, workers not raising children, including young workers just starting their careers or parents without custody of their children, often get taxed into poverty. Expanding the EITC to them could help this.

The EITC has long-lasting positive impacts on the lives of children, and helps them into adulthood. In addition to helping pull families, including children, above poverty, the EITC also helps improve child health from the start—by improving maternal health and prenatal care and reducing low-birthweight and premature births. The EITC also helps children do better and go farther in school, and ultimately increases the chances of students being able to attend and/or afford college. Children in families receiving the EITC also go on to earn more as adults.