



# THE COST-OF-LIVING REFUND: A Bold Proposal to Help Make Michigan's Economy Work for Everyone

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## EXECUTIVE SUMMARY

The Cost-of-Living Refund is an enhanced and modernized version of Michigan's state Earned Income Tax Credit (EITC) that will put more money back into working Michiganders' pockets. It builds on the EITC's benefits, rewarding work, helping offset regressive taxes, pulling families out of poverty, and having long-lasting positive effects on the lives of children in families that receive it. While our current EITC goes far for the families who receive it, the Cost-of-Living Refund is a bold proposal that would help more Michiganders with low and moderate incomes while boosting local economies.

### The Basics of the Proposal

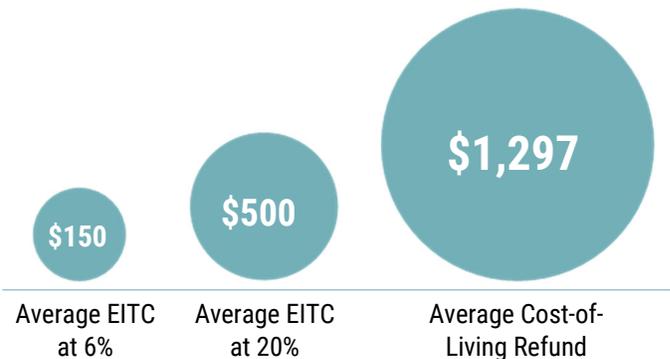
Under the proposal, working families making up to \$75,000 (\$37,500 if not raising children) would qualify for a refundable income tax credit equal to a basic credit of \$1,200 or up to 50% of the federal EITC. It would recognize the important—but unpaid—work that students and caregivers do by allowing them to qualify for a credit. Monthly payment options would be available—instead of simply lump-sum tax refunds—to allow families more security in budgeting daily needs, like housing, utilities and groceries. And the credit would be paid for by raising taxes on high-income earners in Michigan, those making \$250,000 or more annually.

The Cost-of-Living Refund would provide an income boost to nearly 3.6 million Michiganders, including 1.4 million children. About 34% of Michigan families would benefit, including about 43% of taxpayers making under \$105,000 a year, more than double the families that receive Michigan's current EITC. Over 50% of Michigan children would benefit from the Cost-of-Living Refund.

### Righting Our Upside-Down Tax Code

Michigan's overall state tax code makes it harder for residents with low to middle incomes to succeed because it is upside down. This means that taxpayers with lower incomes pay a higher percentage of their income in state and local taxes than higher-income taxpayers. While Michigan's income tax is slightly progressive due to its EITC and Homestead Property Tax Credit, Michigan's sales and property taxes are highly regressive and more than offset the income tax's slight progressivity. Boosting after-tax incomes of working families with low to moderate incomes through the Cost-of-Living Refund would help right-size our tax code.

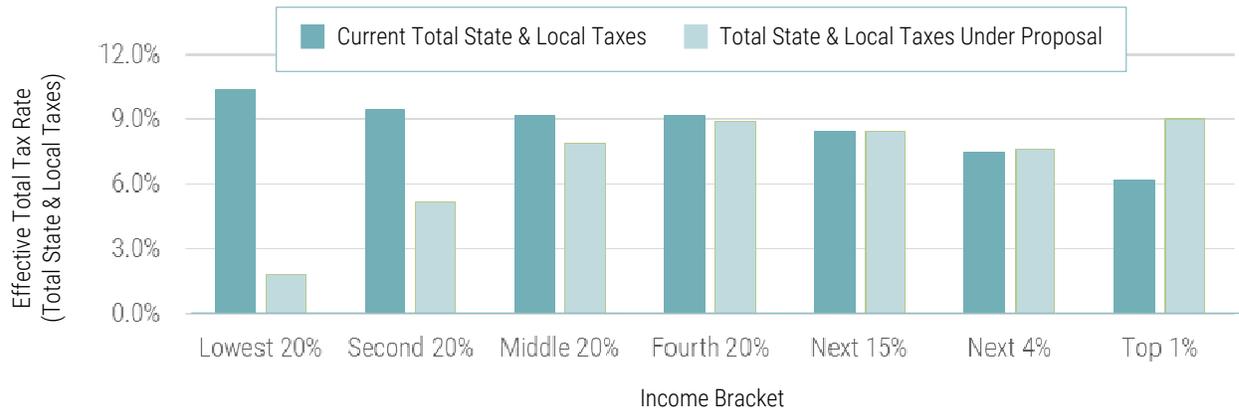
### Michigan's EITC Could Go a Lot Further



Sources: Michigan Department of Treasury, League Calculations, Institute on Taxation and Economic Policy

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## Right-Sizing Michigan's Tax Code



Source: Institute on Taxation and Economic Policy, 2018

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### Now Is the Time to Enact This Bold Proposal

Michigan's growing economy has left too many Michiganders behind. While poverty has declined, 1 in 6 Michiganders—and 1 in 5 Michigan children—still live in poverty and many more struggle to make ends meet. About 43% of Michigan households live below the ALICE (Asset-Limited, Income-Constrained, Employed) threshold, and income has become more concentrated in families with high incomes.<sup>1</sup> At the same time, low-wage jobs continue to dominate the workforce, and many of Michigan's high-demand, high-wage jobs require some postsecondary degree or certification, which more than 60% of Michigan adults lack. The Cost-of-Living Refund would provide a needed boost to families struggling to make ends meet. On top of this, the proposal recognizes the contributions of students to our economy and attempts to shrink some of the barriers to accessing postsecondary education.

The Cost-of-Living Refund would have significant benefits for Michiganders statewide—urban and rural residents communities alike—and would help reduce racial inequities, boost local economies as recipients spend their benefits in their communities, and have long-lasting positive impacts on the lives of children in families who receive it. Michigan should pursue the Cost-of-Living Refund to help give a hand up to Michigan workers and to have a lasting benefit on communities statewide.

1. "ALICE in Michigan: A Financial Hardship Study," Michigan Association of United Ways, 2019, <https://www.uwmich.org/alice>.