



# 2021 BUDGET PRIORITY: STRENGTHEN THE STATE EITC

## LEAGUE RECOMMENDATION:

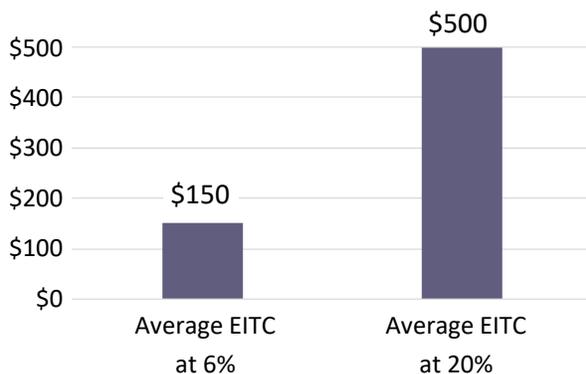
Restore the Earned Income Tax Credit (EITC) to 20% of the federal credit to fortify working families and to inject money into local economies. Modernize the EITC to fit the current economy by making payments monthly and automatic. Fix the definition of work to include caregivers, students, and immigrant workers.

## 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 the fourth-weakest state credit nationwide behind Montana, Maine and Oklahoma. Before being cut in 2011, Michigan taxpayers were allowed to claim a credit equal to 20% of the federal EITC. In 2019, the governor and advocates attempted to double the credit to 12% of the federal EITC through the budget process without success.

**In the 2017 tax year, about 748,500 working families claimed the state EITC, with an average credit of \$150.** Families with low incomes raising children often receive a larger credit. Had the credit not been reduced to 6%, Michigan families receiving the EITC would have seen an average credit worth \$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

## WHY DOES IT MATTER?

**The EITC rewards work and helps keep people working, which spurs local economies.** The EITC is only available to people who have earned income through work or self-employment. EITC funds are often used to supplement work supports, such as transportation costs or child care. They are also used to purchase daily necessities for families. The

credit is refundable, meaning that the funds end up in the pockets of working families and are spent mostly in the local economy. In 2017, the EITC had an impact of about \$122 million in local spending; this spending would have not occurred without the state EITC.

**The EITC is a proven-effective anti-poverty tool.** The EITC is targeted toward people with low to moderate incomes and helps pull families above the poverty line. In 2016, a nationwide study showed that the federal EITC kept 5.8 million people—nearly half of them children—out of poverty. State EITCs build on this effect. In 2015, Michigan’s EITC alone pulled more than 6,550 taxpayers out of poverty. However, at its height, a state EITC equal to 20% of the federal credit pulled over 22,000 Michiganders out of poverty.

**The EITC could ensure that workers without children are not taxed into poverty.** Workers without children, including young workers starting their careers and parents without custody of their children, often get taxed into poverty. For example, a single person at the poverty line, making \$12,490, owes \$531 in state income taxes, thus pushing them deeper into poverty. An expansion of the EITC to childless workers would reduce this tax liability, helping to keep these workers out of poverty.

**The EITC has a long-lasting positive impacts on the lives of children and helps them into adulthood.** In addition to helping pull families—including children—out of poverty, the EITC helps improve child health from the start. Studies show that the EITC improves maternal health and prenatal care, and reduces low-birthweight and premature births. The EITC also helps children perform better and go farther in school, which ultimately increases the chances of students attending and affording college. Children in families receiving the EITC also go on to earn more as adults.