



Understanding the County EITC Data: Another 2020 Anomaly

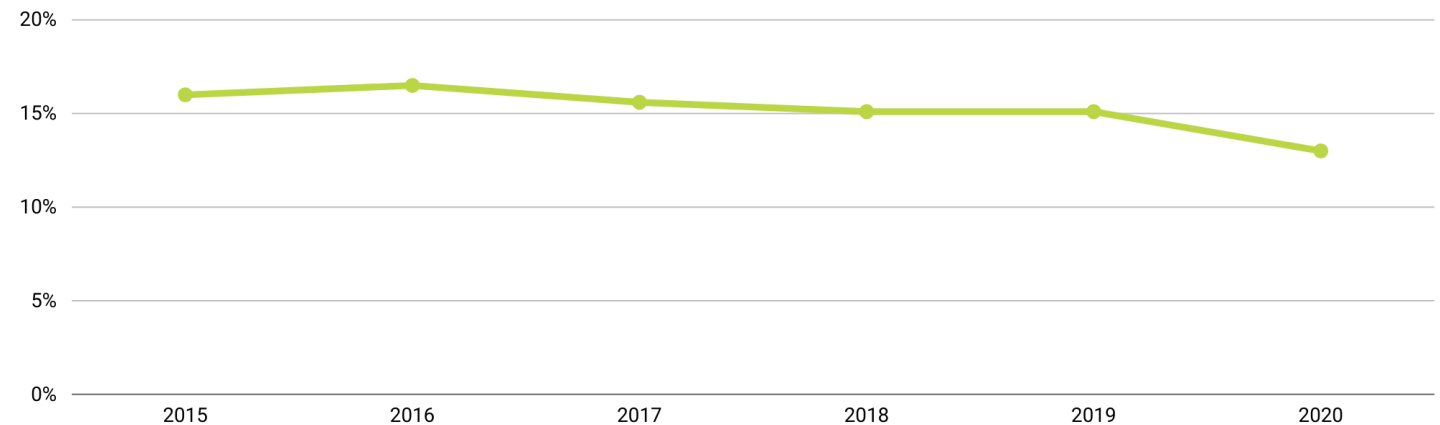
Anne Kuhnen, Tax Policy Analyst | March 2022

We've seen the way 2020 has set new records in all areas of economic data. March 2020 saw 3.3 million Americans file for unemployment, the largest on record. March 2020 also saw the largest stock market loss and gain on record. April 2020 saw a peak in remote work with 69% of Americans working from home. It should be no surprise then that 2020 tax return data looks different as well.

Although a backlog continues to plague the IRS as it struggles to process 2020 federal returns long into the 2021 season, [the data](#) already suggests a steep drop in the number of filers claiming the EITC on federal returns. So far, the number of filers claiming the federal EITC has fallen by 6%, with 1.7 million fewer workers receiving an EITC. It should come as no surprise then to find Michigan filers saw a similar drop in EITC claims.

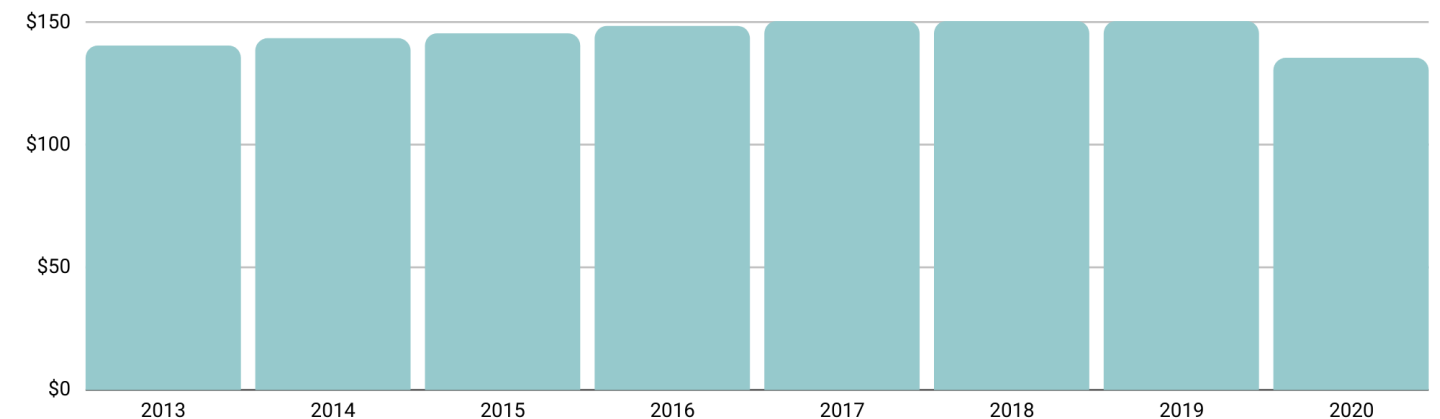
Over 72,300 fewer Michigan families claimed the state EITC in 2020 compared to 2019, an average decline of 10% spanning all counties across the state. In addition, the average recipient saw a reduction in their state credit of nearly \$15, also about a 10% decline.

2020 Deviated Strongly from the Trend with Only 13% of Taxpayers Claiming the EITC



Source: Michigan Department of Treasury

The Average Credit Also Declined Sharply After Years of Steady Claims



Source: Michigan Department of Treasury

In a year that was particularly hard on workers with low incomes, [47% of whom lost a job or took a pay cut](#), the EITC could have provided important relief at tax time. So why might so few Michigan workers have claimed the credit? No one explanation can fully explain the change, but a few possibilities are outlined below.

1

Failure to take advantage of the lookback provision.

EITC eligibility is based solely on earned income coming in the form of wages from employment or gig work. This means the unemployment income claimed by 2.2 Michigan workers between March and December of 2020, both from the state and through CARES Act relief, was ineligible for the EITC. In an effort to support these taxpayers who lost their jobs in 2020, federal relief legislation included what is known as the lookback provision, which allows workers to use their 2019 wage and self-employment income if it is higher than their 2020 earned income to calculate the EITC. Despite this effort to limit the pandemic's impact on a worker's EITC, it is possible many filers were not aware or able to take advantage of the provision.

2

Premium pay for frontline workers.

A June 2020 budget supplemental provided hazard pay premiums of up to \$1,000 for first responders in Michigan, including law enforcement officers, EMTs, paramedics, corrections officers and others. It also provided a \$2 per hour increase for direct care workers. At the federal level, the HEROES Act provided up to \$200 billion that employers could use to pay essential workers up to \$10,000 in pandemic premium pay. While limited in scope, such pay supplements for frontline workers may have sufficiently raised the pay for some taxpayers above the eligibility threshold to claim the EITC.

3

Low VITA capacity.

VITA sites were incredibly strained during the pandemic as coordinators had to find a way to train volunteers, collect paperwork, and file returns in a safe and socially-distanced way. Although the IRS has not released data on the number of EITC claims filed by volunteers in Michigan yet for 2020, anecdotal evidence from VITA site coordinators suggests a number of pandemic-related challenges limited their ability to serve as many clients in 2020.