



MEMORANDUM

TO: Members of the Senate Committee on Finance

FROM: Monique Stanton, President and CEO, Michigan League for Public Policy

DATE: May 25, 2022

SUBJECT: Support for SB 417 (Schmidt)

The Michigan League for Public Policy is pleased to have another opportunity to join our coalition partners in expressing support for Senate Bill 417 (Schmidt), which increases the Michigan Earned Income Tax Credit (EITC) to 30%, and addressing the questions that have been raised about its implementation. The League advocates for state-level policies that help families with low incomes achieve economic security, and research shows the EITC does just that.

Michigan's EITC lets low-paid workers and their families keep more of what they earn so they can afford basic necessities. But at a rate of only 6% of the federal credit, Michigan's EITC is among the lowest in the nation, and it is not doing enough to meet the needs of families who are struggling to get ahead as prices continue to rise on essentials like groceries, gas, and infant formula.

Increasing the EITC to 30% will put an additional \$443 million into the hands of workers and families with the greatest need—Black, Brown and White; rural and urban—and support the communities where they work and live. Michiganders spend their credits at local businesses, keeping money flowing through our towns and cities and contributing to a thriving economy. An increase to 30% of the federal credit would mean an average credit of \$750 for eligible families, which could pay for one month of healthcare for a family of four, nine months of diapers or ten months of internet access.

The Michigan EITC's refundability is a key strength because it ensures recipients receive the full credit. This is especially important for workers with the lowest incomes who most need a boost to keep up with rising prices. Research from the national Institute on Taxation and Economic Policy shows that even with an increase to 30% of the federal credit, eliminating refundability would actually *raise taxes* on the average worker earning less than \$23,000.

It is no surprise then that a 2017 study found infant health outcomes are much better in states with a refundable EITC worth more than 10% of the federal credit compared to those without refundability.¹ Maintaining a refundable credit—and increasing it to 30%—would provide a

¹ Markowitz, Sara, Kelli A. Komro, Melvin D. Livingston, Otto Lenhart, and Alexander C. Wagenaar. "Effects of State-Level Earned Income Tax Credit Laws in the U.S. on Maternal Health Behaviors and

much-needed investment in working families, in our businesses and in our communities. We were very pleased to see that refundability has received support in both the House and Senate in various iterations.

Additionally, arguments around improper payments should not be an excuse to deny a significant and meaningful improvement to our state EITC. As in most other states, Michigan relies on federal EITC rules to determine eligibility for the state credit. Consequently, any challenges with administration at the federal level will naturally impact the state credit. Federal audits have identified the scope and source of improper payments and can help guide this discussion.

Importantly, improper payments do not always result in a loss in tax revenue. In addition to overpayments there are underpayments, payments to the wrong recipient and returns with insufficient documentation, which are also considered improper payments. IRS audits indicate fraud is not a primary reason for improper payments. The two leading causes of improper payments are (1) lack of data availability, such as inability for the IRS to verify the relationship or residency of a qualifying child dependent, and (2) program design complexity.² Nevertheless, the IRS is engaged in efforts to reduce the number of improper payments by (a) increasing oversight of paid preparers³, (b) taking steps to collect data on self-employment income from the Social Security Administration⁴ and (c) allocating a greater share of auditing resources toward filers claiming the EITC.⁵

In 2021, audits on EITC recipients made up 47% of all audits while only 2% of audits were conducted on taxpayers claiming over \$1 million in income.⁶ However, concerns about EITC overpayments must necessarily be weighed alongside EITC take-up rates. Approximately one in five eligible workers in Michigan fails to claim the EITC.⁷ If the cost of responding to an audit outweighs the benefits of the credit, some workers may simply choose not to participate and will miss out on this important anti-poverty program.

We would like to thank Senator Schmidt for bringing this legislation into the budget conversation this year as well as the members of this committee for providing the space to increase awareness about the benefits of the EITC and respond to questions about its administration. We thank you for your consideration and urge you to support SB 417.

Infant Health Outcomes.” *Social Science & Medicine* (1982) 194 (December 2017): 67–75.

<https://doi.org/10.1016/j.socscimed.2017.10.016>.

² “Agency Financial Report: Fiscal Year 2018.” Department of the Treasury, 2018.

https://home.treasury.gov/system/files/236/AFR_Full%20111518_clean_508.pdf.

³ Robert Greenstein, John Wancheck, and Chuck Marr. “Reducing Overpayments in the Earned Income Tax Credit.” Center on Budget and Policy Priorities, January 31, 2019.

<https://www.cbpp.org/research/federal-tax/reducing-overpayments-in-the-earned-income-tax-credit>.

⁴ “Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported.” Treasury Inspector General for Tax Administration, May 6, 2022.

<https://www.treasury.gov/tigta/auditreports/2022reports/202240037fr.pdf>.

⁵ “Three Facts About EITC Overpayments.” Center on Budget and Policy Priorities, May 1, 2013.

<https://www.cbpp.org/blog/three-facts-about-eitc-overpayments>.

⁶ “IRS Audits Poorest Families at Five Times the Rate for Everyone Else.” Transactional Records Access Clearinghouse (TRAC), March 8, 2022. <https://trac.syr.edu/tracirs/latest/679/>.

⁷ “EITC Participation Rate by States.” Internal Revenue Service, December 6, 2021.

<https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states>.