

## SUPPORT THE MICHIGAN EARNED INCOME TAX CREDIT (EITC)

### What is the Earned Income Tax Credit (EITC) and the Michigan EITC?

The **EITC** was created by Congress in 1975 to ease the tax burden on working families and individuals and is a refundable tax credit on an individual's federal income tax liability. The EITC increases with income up to a maximum credit amount, then phases out as the taxpayer earns enough income to pass the poverty threshold. In 2005 the average EITC in Michigan was roughly \$1,775 per filer and, for the 2008 tax year, the maximum EITC amount is \$4,824.

Like the federal EITC, the **Michigan EITC** is a refundable tax credit and is for an individual's state income tax liability. It was created in 2006 and took effect for the first time for the 2008 tax year. Built on the federal EITC, the Michigan EITC as originally enacted was to be 10 % of the federal credit amount for the 2008 tax year and 20% of the federal credit amount for each tax year thereafter.

Due to ongoing revenue shortfalls in the state budget, some lawmakers have discussed "freezing" the Michigan EITC at its current level of 10% of the federal.

## EITC STIMULATES ECONOMIC GROWTH & SUPPORTS WORKING FAMILIES

### What impact does the EITC have on Michigan's communities?

While the EITC is a tax credit for individuals, its impact on communities and local economies cannot be understated. This is because taxpayers who qualify for, and claim, the EITC are low-wage workers who typically spend this additional income in their community to help offset the cost of rent, food, clothing and other essentials. The EITC also enables families to save a portion of their return to help them weather difficult times and financial hardships.

Studies on the economic impact of the EITC in other states have shown that:

- The EITC provides an annual concentrated cash infusion into local economies which in some communities is more than \$1 million per square mile<sup>1</sup>.
- Each additional \$1.00 in EITC coming into San Antonio generates \$1.58 in local economic activity and each additional \$37,000 in EITC results in one additional permanent job<sup>2</sup>.
- The EITC dollars received in Cuyahoga County, Ohio in the first months of 2003 equaled all wages and salaries paid in the local hotel and industry that quarter<sup>3</sup>.

<sup>1</sup> Alan Berube & Benjamin Forman, Brookings Institution, "Rewarding Work: The Impact of the Earned Income Tax Credit in Chicago" (2005)

<sup>2</sup> Texas Perspectives, Inc., "Increased Participation in the EITC in San Antonio" 2003)

<sup>3</sup> Alan Berube, Brookings Institution, "Connecting Cleveland's Low-Income Workers to Tax Credits" (2005)

