

Legislative Analysis



EARNED INCOME TAX CREDIT INCREASE

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<http://www.house.mi.gov/hfa>

House Bill 4002 (H-4) as passed by the House
Sponsor: Rep. Nate Shannon
Committee: Tax Policy [Discharged]
Revised 1-30-23

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 4002 would amend the Income Tax Act to increase the value of the state Earned Income Tax Credit (EITC).

The state EITC is a refundable individual income tax credit that is now capped at 6% of the federal EITC.

The bill would amend the act to increase the state EITC cap to 30% of the federal credit beginning in the 2023 tax year.

In addition, the bill would allow taxpayers that claim the credit for the 2022 tax year to claim an additional one-time credit equal to 24% of the taxpayer's federal EITC. The credit to which each taxpayer is entitled would be calculated by the Department of Treasury and would have to be refunded as soon as practical.

MCL 206.272

BACKGROUND:

Earned Income Tax Credits (EITCs) are a common feature across federal and state income taxes to provide assistance to low- and moderate-income families. The credits are generally refundable and are based on the taxpayer's adjusted gross income (AGI) and the number of qualifying dependent children claimed on the tax return.

The federal EITC was initially created in 1975 and is primarily focused on providing financial assistance to working families with children. While childless taxpayers are eligible to claim the credit, it is significantly smaller than that available to taxpayers with qualifying dependents.¹

The federal credit is structured to phase in as income increases until the maximum credit amount is reached. After a certain income threshold, the credit then gradually phases out until it reaches \$0 for those above the maximum income eligibility.²

¹ The American Rescue Plan Act of 2021 significantly expanded the credit for childless workers for the 2021 tax year, among other changes, but this expansion was not extended to future years.

https://www.house.mi.gov/hfa/PDF/Alpha/Fical_Brief_American_Rescue_Plan_Act_of_2021_Aug31.pdf

² The Tax Policy Center provides a more detailed overview of this phase-in and phase-out structure using the 2021 guidelines: <https://www.taxpolicycenter.org/briefing-book/what-earned-income-tax-credit>

The Michigan EITC was originally created in the Income Tax Act by 2006 PA 372.³ The credit was refundable and worth 10% of the federal credit for the 2008 tax year and 20% of the federal credit for tax years beginning after 2008. Subsequently, 2011 PA 38, which made several other significant changes to the individual income tax, reduced the state credit to 6% of the federal EITC beginning in the 2012 tax year.

FISCAL IMPACT:

The bill would reduce general fund revenue by approximately \$450.0 million per year beginning in FY 2022-23. The revenue impact is expected to remain relatively stable in future years, based on historical EITC claims data. There would be no revenue impact on the School Aid Fund (SAF) because individual income tax revenue earmarked to the SAF is based on gross collections, which exclude the effects of tax credits.

According to the Department of Treasury, the provisions requiring the department to distribute refunds to taxpayers for the 2022 tax year via check will cost approximately \$925,000. Costs include mailing, printing, and issuing checks to taxpayers, as well as processing returns, handling correspondence with taxpayers, and any other activities necessary to administer the changes. The provisions could require up to two additional full-time equated positions.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.

³ <http://legislature.mi.gov/doc.aspx?2005-SB-0453>