

**MICHIGAN EARNED INCOME
TAX CREDIT
Tax Year 2013**



**Office of Revenue and Tax Analysis
Michigan Department of Treasury
February 2015**

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Acknowledgments

Scott Darragh prepared this statistical update under the direction of Howard Heideman, Director of the Tax Analysis Division, Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Introduction

Public Act 372 of 2006 created the Michigan earned income tax credit (EITC). For the 2008 tax year, an eligible taxpayer could claim a credit against the Michigan income tax equal to 10 percent of the federal earned income tax credit for which the taxpayer is eligible. By using the federal eligibility standards for the Michigan credit the credit “piggy-backs” on the federal credit. Beginning with the 2009 tax year, the Michigan credit increased to 20 percent of the federal credit. If the Michigan EITC exceeds the taxpayer’s income tax for the year the excess credit is paid as a tax refund. Public Act 38 of 2011 reduced the Michigan EITC to 6 percent of the federal credit, effective for tax years that begin after December 31, 2011.

The purpose of this report is to present statistical data on the Michigan EITC for 2013, the sixth year the credit was available for Michigan taxpayers. The data presented here are based on 780,502 tax returns that claimed and received an EITC for 2013. Statistics for the Michigan EITC are presented for filing status, processing date, income level, children claimed as dependents, and the impact of the EITC on poverty status.

Background on the Federal EITC

The federal EITC was established in 1975 as a way to offset the impact of the Social Security tax on low-income, working families. After several expansions, the EITC is now the largest cash benefit program in the country. More than 19 percent of all tax returns filed nationally claimed an EITC for 2012, the latest year for which complete data are available. In Michigan, 18.3 percent of all returns filed claim a federal EITC. The federal EITC for tax years 2009 through 2017 has been increased for some married couples and for taxpayers with three or more qualifying children. For 2013, the credit may be as large as \$6,044 for a family with three or more qualifying children.

The EITC has three distinct ranges, depending upon an eligible taxpayer’s income. Charts 1 and 2 depict the 2013 EITC for unmarried filers and couples filing a joint return, respectively. Income, for purposes of the EITC, means either the taxpayer’s adjusted gross income or earned income from wages, salaries, or business income, whichever produces the smallest credit. The EITC initially rises with additional earned income, effectively acting as a subsidy for work. The subsidy rates are 7.65 percent for recipients without qualifying children, 34 percent for recipients with one qualifying child, 40 percent for recipients with two qualifying children, and 45 percent for recipients with three or more qualifying children. The income subsidy range ends at \$6,370 for recipients without qualifying children, resulting in a maximum credit of \$487 for 2013. For recipients with one qualifying child, the subsidy range ends at \$9,560 resulting in a maximum credit of \$3,250. For recipients with two and three or more qualifying children, the subsidy range ends at \$13,430 resulting in maximum credits of \$5,372 and \$6,044, respectively.

The second range is often referred to as the cash-grant range, since the EITC amount is unchanged even if a recipient’s income changes within the range. The cash-grant range is between \$6,370 and \$7,970 for recipients without qualifying children who are not married and filing a joint return, between \$9,560 and \$17,530 for recipients with one qualifying child and not

filing a joint return, and between \$13,430 and \$17,530 for recipients with two and three or more qualifying children and not filing a joint return. In order to reduce the marriage penalties associated with the EITC, the cash-grant range for 2013 is extended by \$5,340 for all recipients who are married and filing a joint return.

The EITC is phased out in the third range, so additional income will result in a smaller EITC amount. The phase-out range effectively taxes additional earned income by reducing the credit as the recipient's income rises. For recipients without qualifying children, the credit is reduced by 7.65 percent of any income over \$7,970, and the credit is eliminated for incomes over \$14,340 for taxpayers whose filing status is single or head of household. The phase out range begins at \$13,310 and is completed at \$19,680 for those filing a joint return without qualifying children. The phase out begins at \$17,530 and is complete at \$37,870 for unmarried recipients with one qualifying child. As a result, the credit is reduced by approximately 16 percent of any income above \$17,530. The phase out range begins at \$22,870 and is completed at \$43,210 for those with one qualifying child who file a joint return. For unmarried recipients with two qualifying children and those with three or more qualifying children the phase out begins at \$17,530. For recipients with two qualifying children the phase out is complete at \$43,038, while the phase out is complete at \$46,227 for recipients with three or more qualifying children. As a result, the credit is reduced by approximately 21 percent of any income above \$17,530. The phase out range begins at \$22,870 and is completed at \$48,378 for those joint filers with two qualifying children and at \$51,567 for joint filers with three or more qualifying children.

2013 Michigan EITC

For tax year 2013, approximately 780,500 taxpayers received the Michigan EITC. Just under \$109.7 million in total credits were claimed, with the average credit equal to \$140. The average taxpayer claiming an EITC had a federal adjusted gross income (AGI) equal to \$17,725. The average was \$18,057 for those with AGI greater than zero. For the approximately 775,200 EITC recipients with AGI greater than zero, the Michigan EITC averaged approximately 0.8 percent of AGI, the same percentage as in 2012.

Table 1 reports 2013 EITC recipients by AGI. The heaviest concentration of EITC returns occurs between \$5,000 and \$15,000 in AGI, with just over 40 percent of all EITC returns reporting an AGI in this range. The average credit is highest for recipients between \$15,000 and \$20,000, with the average credit for this group equal to \$237 for 2013. This income group is dominated by taxpayers with qualifying children and the unmarried taxpayers with qualifying children are beginning the phase-out range once income reaches \$17,530.

Beginning with tax year 2012, the separate deduction for children age 18 and under on the Michigan income tax return was eliminated. In order to estimate the number of EITC returns with qualifying children, the number of federal exemptions claimed on the Michigan return was reduced by the number of taxpayers and spouses represented on the return. For example, a return filed as single with three federal exemptions would be assumed to have two qualifying children, while a joint return with three federal exemptions would be assumed to have one qualifying child. Table 2 shows the distribution of the Michigan EITC by the number of estimated

qualifying children. More than 25 percent of the credits are claimed by taxpayers who do not appear to have a child claimed as a dependent, but these credits are small and reflect the smaller federal credit for those without a qualifying child. The average credit for taxpayers who do not claim a child exemption is \$20, less than 15 percent of the overall average credit. The average credit for those claiming two or more estimated exemptions for children is \$220.

The vast majority of EITC recipients are unmarried, with more than 70 percent reporting single as their filing status. Table 3 shows the distribution of the Michigan EITC by filing status. The average credit for single filers is approximately 14 percent smaller than the average for married filers. While the expanded federal credit range for married claimants may explain some of the difference in average credits, the average AGI of married claimants is also significantly higher than the average AGI of single filers.

Almost 373,900 (47.9 percent) of EITC recipients also received a homestead property tax credit (HPTC), the longstanding Michigan credit designed to provide tax relief to Michigan residents with property taxes that exceed a percentage of their total income specified in statute, typically 3.5 percent of income. Renters are eligible for the credit if rent exceeds 17.5 percent of total income. For those taxpayers who received both credits, the average EITC was \$161 while the average HPTC was \$470. Total payments to taxpayers who received both credits were \$236.05 million, \$60.32 million in Michigan EITC and \$175.73 million in HPTC payments.

EITC claimants on average file their returns earlier than the typical Michigan taxpayer. The distribution of EITC returns by processing date is presented in Table 4, and two key facts are observable. First, EITC returns are filed and processed very early in the processing season with almost 58 percent of the credits processed prior to the end of February while approximately 34 percent of all individual income tax returns processed during 2014 were completed by the end of February. Second, the average EITC amount is higher on returns filed early compared to those filed later in the season. The average EITC amount in January and early February (\$176) is much higher than the average credit on returns processed in March and April (\$109). The early filing of EITC returns no doubt reflects the expectation on the part of the taxpayer for a substantial refund.

The structure of the EITC, at both the federal and state levels, targets the largest benefits to working households near the poverty level. For example, the maximum federal EITC for a family of three with two qualifying children is available at incomes between \$13,430 and \$17,530. This income level approximates what a full-time worker would earn for the year if they worked at or near the federal or Michigan minimum wages. The poverty guideline from the U.S. Department of Health and Human Services for 2013 for a family of three was \$19,530. The additional resources provided through the federal and Michigan EITCs would have moved a family of three with earnings roughly equivalent to full-time employment at the minimum wage from below the poverty guideline to above the poverty guideline. The maximum federal EITC for two qualifying children was \$5,372 for tax year 2013, and the Michigan EITC would be \$5,372 x 6 percent or \$322 for a combined total of \$5,694. While not every family who qualifies for a significant EITC payment is lifted out of poverty, the combined benefits of the federal and Michigan EITCs can significantly improve the financial condition of the working poor.

To measure the impact of the federal and Michigan EITCs on the poverty status of Michigan claimants, each claimant's AGI and Michigan EITC were used to construct a ratio of income to the poverty guideline based on family size. Each taxpayer receiving a Michigan EITC reports AGI, claims federal exemptions equal to the number of taxpayers and dependents in the home, and claims a Michigan EITC¹. Based on the number of federal exemptions a poverty guideline amount can be assigned to the tax return. Since the Michigan EITC is equal to 6 percent of the federal EITC, the federal EITC amount can be imputed from the Michigan EITC amount. Using this information, a comparison of income before and after the EITC can be constructed².

A commonly used measure of poverty status is the ratio of income to a standard of poverty. A ratio of less than 1 means the household's income is below the poverty standard and the household is considered to be in poverty. A ratio of 1 means the household is right at the poverty standard, and a ratio above 1 means the household has an income above the poverty standard. To evaluate the impact of the Michigan and federal EITCs on the poverty status of Michigan claimants, three ratios are computed for each claimant. The first ratio is AGI to the poverty guideline. This ratio will look at the poverty status of the claimant's family ignoring the impact of the EITC. While AGI is the most common measure of income used for tax purposes, it is not necessarily the most complete measure. The U.S. Bureau of the Census uses cash income when calculating the poverty statistics, which includes all payments of cash received by the household including government cash assistance, gifts, and other transfer payments such as Social Security and Supplemental Security Income. For the entire population, the difference between AGI and cash income would be significant and using AGI instead of cash income would alter the measured poverty rate somewhat. However, many low-income workers are too young for Social Security benefits and do not receive other cash assistance, so that AGI and cash income as measured by the Census Bureau are very similar.

The distribution of returns by the ratio of AGI to the poverty guideline is shown in the second column of Table 5. For 2013, 137,671 returns (17.8 percent) reported AGI of no more than ½ of the poverty guidelines, a ratio of 0.5 or less. A total of 442,141 returns (57.0 percent) reported AGI at or below the poverty guidelines. Based on AGI alone, the families represented by these returns would be in poverty. There were 194,462 returns reporting AGI above the poverty guidelines but no more than 1.5 times the poverty guidelines. For a family of three, this would be AGI between \$19,530 and \$29,295. The remaining 138,839 returns reported AGI of more than 1.5 times the poverty guidelines.

The inclusion of the EITC will increase every claimant's ratio of income to the poverty guideline, but an EITC of several thousands of dollars will raise the ratio by 0.1 to 0.3, depending on family size. When the federal EITC is included along with AGI, approximately 354,061 returns are below the poverty guidelines, a decline of 19.9 percent or 88,080 returns compared to using AGI alone. The third column of Table 5 has the distribution of returns including the federal EITC. The inclusion of the federal EITC results in a net movement of

¹ The number of federal exemptions will approximate the number of people living in the household well, but there are situations where individuals either living in the household are not claimed as dependents (even if they are qualifying children) or living in another household are claimed as dependents. For example, the exemption for a child may be assigned to a non-custodial parent as part of a divorce or separation agreement.

² Returns with AGI < 0 were excluded. This excluded a total of 5,060 returns (rounded to the nearest 10 returns).

105,031 returns from below to above 0.75 times the poverty guidelines, a decline of 34.5 percent in returns well below the poverty guidelines (≤ 0.75). The fourth column of Table 5 has the net change for each income division once the federal EITC is included. Each income division above 0.75 times the poverty guidelines sees a net increase in the number of returns within the division. This generally occurs because returns in the next lower category prior to the inclusion of the federal EITC move one-step higher as a result of the federal EITC. The approximately 8,404 additional returns that have income greater than 2.0 times the poverty guidelines with the federal EITC included would generally have had a ratio of between 1.5 times and 2.0 times the poverty guidelines without the federal EITC, and not have been at or below poverty. The movement in Table 5 will generally reflect many returns moving one income category.

The Michigan EITC also raises the income of recipients, although by a smaller amount than the federal EITC. The Michigan credit raises a recipient's ratio of income to poverty guideline by 0.1 or less for all but the families with the lowest incomes, so there should be less movement between income divisions as a result of the Michigan credit. When the Michigan EITC is included along with AGI and the federal credit the number of returns below the poverty guidelines falls to 347,338, a drop of 6,723 returns from AGI and the federal credit alone. The combined impact of the federal and Michigan EITCs, done by comparing the fifth column to the second column in Table 5, was to move 94,803 families above the poverty guidelines for 2013. This represents a decline of 21.4 percent compared to AGI alone. These calculations would imply that the combined impact of the Michigan and federal EITCs is to move almost $\frac{1}{4}$ of the working poor above the poverty guidelines.

As noted earlier, the impact of the combined benefit from the federal and Michigan EITCs on families near the poverty guidelines can be very significant, raising disposable income by a third or more³. However, even families that have incomes somewhat above the poverty guidelines would see significant increases in disposable incomes⁴. The additional income provided by the EITCs could provide working families with additional options for housing, child care, or transportation so that the family can remain in the labor force and take steps toward additional self-sufficiency.

If you have questions on this report, please contact Scott Darragh at (517) 241-2148.

³ Note that a married-couple family with two qualifying children and an AGI of \$16,300 would have received a federal EITC of \$5,372 and a Michigan EITC of \$322. Combined with an estimated federal and state tax liability of \$1,268 (including Social Security and Medicare), the family's disposable income would be increased by 37.9 percent by the combined EITCs. This calculation does not include any refundable portion of the federal Child Tax Credit or any Michigan Homestead Property Tax Credit.

⁴ A single parent with two qualifying children and an AGI of \$30,000 would have received a federal EITC of \$2,741 and a Michigan EITC of \$164. The combined EITCs of \$2,905 represent 9.7 percent of AGI.

Chart 1
Federal EITC 2013 – Unmarried Filers

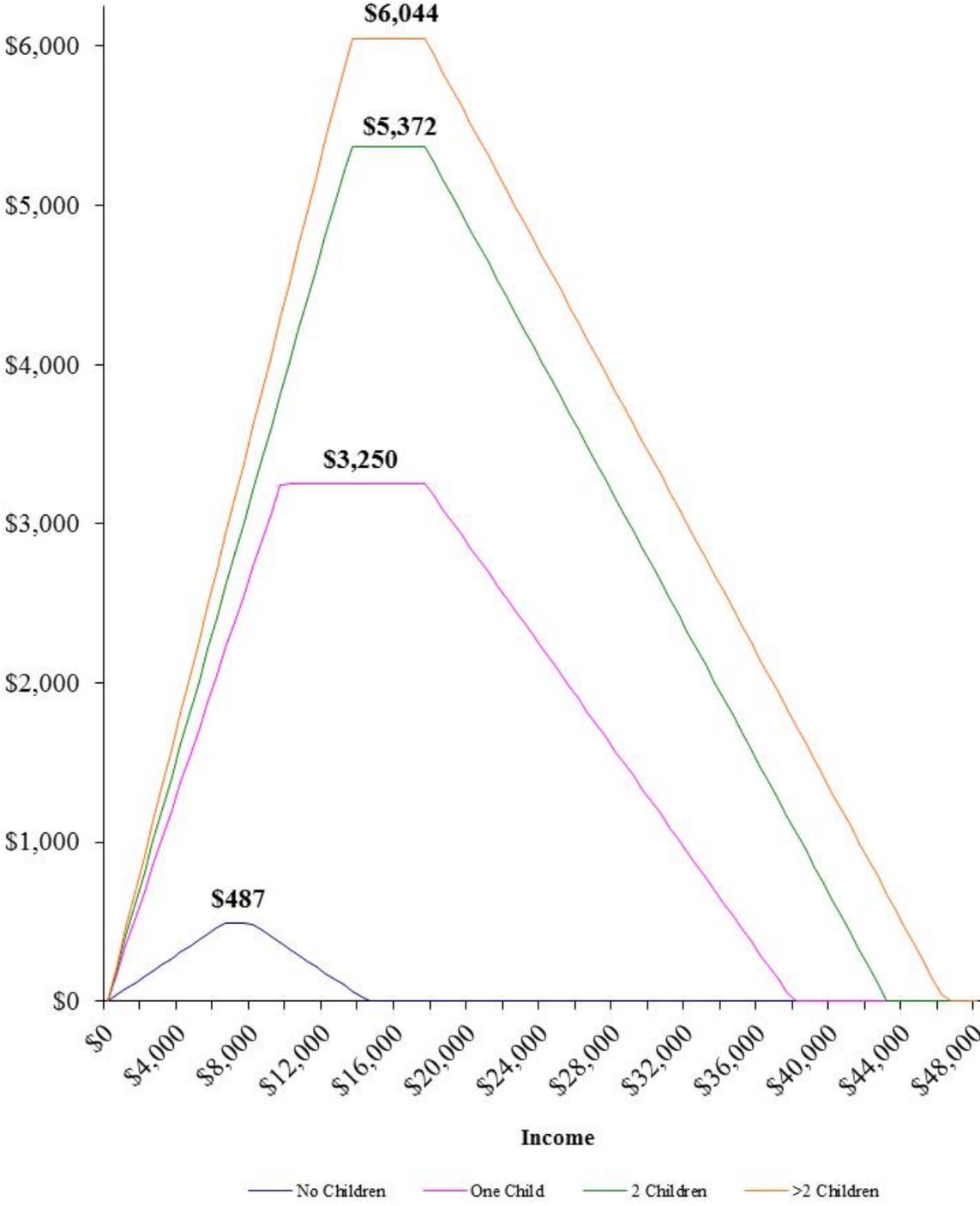
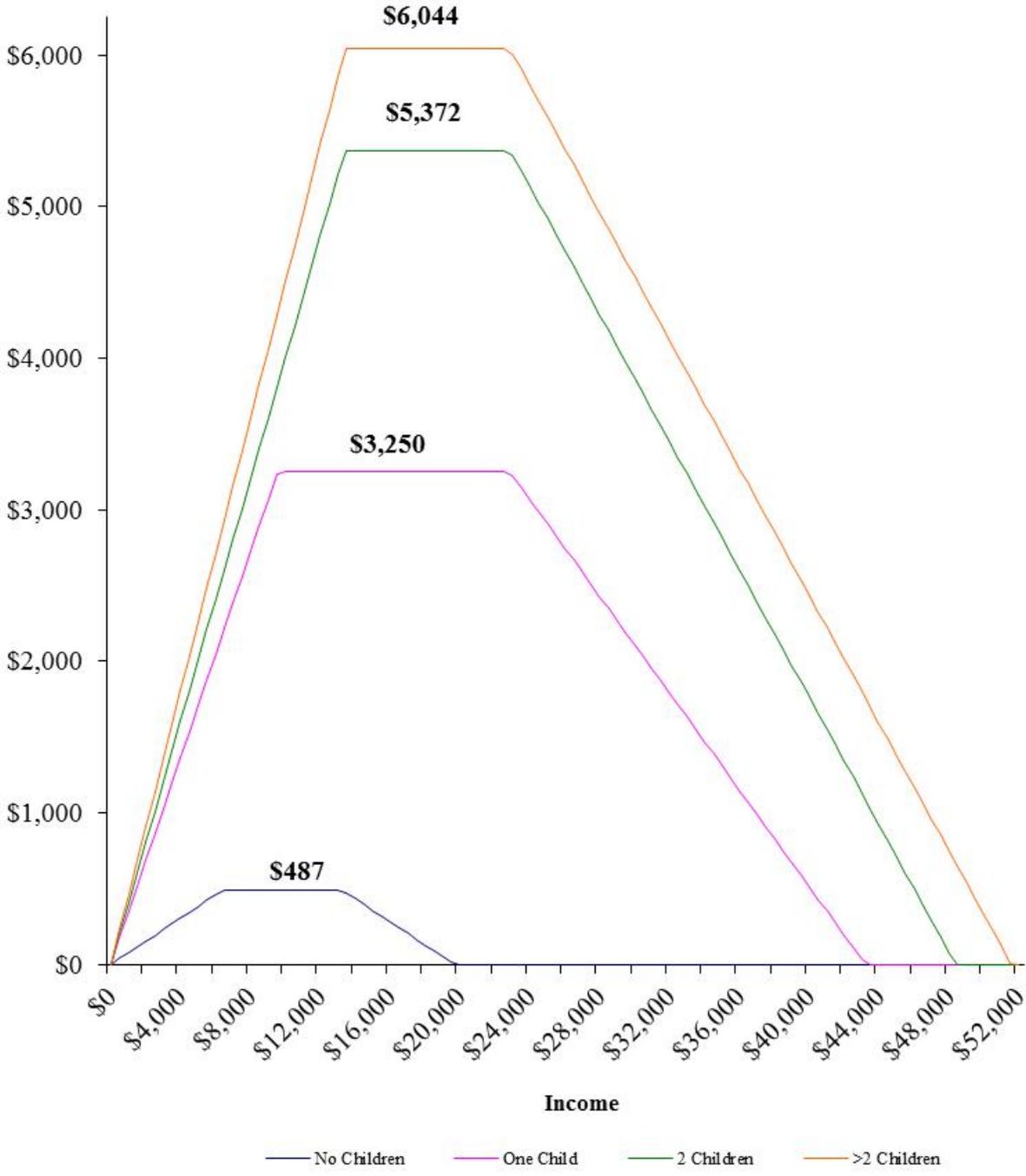


Chart 2
Federal EITC 2013 – Married Filing Jointly



**Table 1
EITC Recipients by AGI
Tax Year 2013**

<u>AGI Range</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>	<u>Total MI EITC (millions)</u>
Less than or = \$0	5,308	-\$31,698	\$59	\$0.3
\$1 - \$5,000	74,494	\$2,842	\$31	\$2.3
\$5,001 - \$10,000	140,504	\$7,837	\$95	\$13.3
\$10,001 - \$15,000	173,196	\$12,459	\$159	\$27.5
\$15,001 - \$20,000	103,716	\$17,372	\$237	\$24.6
\$20,001 - \$25,000	77,876	\$22,450	\$221	\$17.2
\$25,001 - \$30,000	67,249	\$27,444	\$173	\$11.6
More than \$30,000	<u>138,159</u>	\$37,175	\$92	<u>\$12.7</u>
Total	780,502	\$17,725	\$140	\$109.7

**Table 2
EITC Recipients by Estimated Number of Children
Tax Year 2013**

<u>Number of Child Exemptions Reported</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>	<u>Total MI EITC (millions)</u>	<u>Total Children Reported</u>
0	201,427	\$7,932	\$20	\$4.0	0
1	261,967	\$18,646	\$137	\$35.9	261,970
2	196,092	\$22,235	\$210	\$41.2	392,180
3	87,997	\$24,059	\$239	\$21.1	263,990
4 or more	<u>33,019</u>	\$26,489	\$227	<u>\$7.5</u>	<u>145,690</u>
Total	780,502	\$17,725	\$140	\$109.7	1,063,830

Table 3
EITC Recipients by Filing Status
Tax Year 2013

<u>Filing Status</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>	<u>Total MI EITC (millions)</u>
Single	578,145	\$15,193	\$135	\$77.8
Married filing joint	202,243	\$24,963	\$157	\$31.8
Married filing separate	114	\$16,793	\$109	\$0.0
Total	780,502	\$17,725	\$140	\$109.7

Table 4
EITC Recipients by Processing Date
Tax Year 2013

<u>Return Processed</u>	<u>Percent of Total</u>	<u>Cumulative Percent of Total</u>	<u>Average MI EITC</u>	<u>Total MI EITC (millions)</u>
January	0.2%	0.2%	\$113	\$0.1
Feb. 1 - Feb. 14	31.8%	32.0%	\$176	\$43.6
Feb. 15 - Feb. 28	25.8%	57.8%	\$148	\$29.8
March	19.7%	77.6%	\$123	\$18.9
April	14.3%	91.8%	\$90	\$10.0
After April	8.2%	100.0%	\$111	\$7.1
Total	100.0%		\$140	\$109.7

Table 5
Impact of Federal and Michigan EITC on Poverty Status
Tax Year 2013

<u>Ratio of Income to Poverty Guidelines</u>	<u>AGI Alone Count</u>	<u>AGI plus Federal EITC</u>	<u>Change from federal EITC</u>	<u>AGI plus Federal and Michigan EITC</u>	<u>Additional Change with Michigan EITC</u>
No more than 0.5	137,671	99,056	-38,615	97,595	-1,461
>0.50 and <= 0.75	161,684	95,268	-66,416	93,124	-2,144
>0.75 and <=1.0	142,786	159,737	16,951	156,619	-3,118
>1.0 and <=1.25	123,841	149,775	25,934	151,886	2,111
>1.25 and <=1.50	70,621	92,917	22,296	94,531	1,614
>1.50 and <=2.0	104,559	136,005	31,446	138,329	2,324
Greater than 2.0	<u>34,280</u>	42,684	8,404	43,358	674
Total	775,442				
Total Below Poverty	442,141	354,061		347,338	
Total Above Poverty	333,301	421,381		428,104	
Total Moving Above Poverty		88,080		94,803	6,723