

**MICHIGAN EARNED INCOME
TAX CREDIT
Tax Year 2009**



**Office of Revenue and Tax Analysis
Michigan Department of Treasury
February 2011**

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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.

The purpose of this report is to present statistical data on the Michigan EITC for 2009, the second year the credit was available and the first year with the higher piggy-back rate of 20 percent. The data presented here are based on 782,600 tax returns that claimed and received an EITC for 2009. In addition, returns with a 2009 EITC were matched with the taxpayer’s 2008 return, when available. The match was done for taxpayers who also claimed a 2008 EITC, and for all 2008 filers. The matched returns allow for a comparison of a recipient’s income from one year to the next.

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 17 percent of all tax returns filed nationally claimed an EITC for 2008, the latest year for which complete data are available. In Michigan, 16.4 percent of all returns filed claim a federal EITC. The federal EITC for tax years 2009 and 2010 was increased for some married couples and for taxpayers with three or more qualifying children. For 2009, the credit may be as large as \$5,657 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 2009 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 \$5,970 for recipients without qualifying children, resulting in a maximum credit of \$457 for 2009. For recipients with one qualifying child, the subsidy range ends at \$8,950 resulting in a maximum credit of \$3,043. For recipients with two and three or more qualifying children, the subsidy range ends at \$12,570 resulting in maximum credits of \$5,028 and \$5,657, 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 \$5,970 and \$7,470 for recipients without qualifying children who are not married and

filing a joint return, between \$8,950 and \$16,420 for recipients with one qualifying child and not filing a joint return, and between \$12,570 and \$16,420 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 2009 is extended by \$5,000 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 tax benefits as the recipient's income rises. For recipients without qualifying children, the credit is reduced by 7.65 percent of any income over \$7,470, and the credit is eliminated for incomes over \$13,440 for taxpayers whose filing status is single or head of household. The phase out range begins at \$12,470 and is completed at \$18,440 for those filing a joint return without qualifying children. For unmarried recipients with one qualifying child, the phase out begins at \$16,420 and is complete at \$35,463. As a result, the credit is reduced by approximately 16 percent of any income above \$16,420. The phase out range begins at \$21,420 and is completed at \$40,463 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 \$16,420. For recipients with two qualifying children the phase out is complete at \$40,295, while the phase out is complete at \$43,279 for recipients with three or more qualifying children. As a result, the credit is reduced by approximately 21 percent of any income above \$16,420. The phase out range begins at \$21,420 and is completed at \$45,295 for those joint filers with two qualifying children, and at \$48,279 for joint filers with three or more qualifying children.

2009 Michigan EITC

For tax year 2009, more than 782,000 taxpayers received the Michigan EITC. More than \$338.0 million in total credits were claimed, with the average credit equal to \$432. The average taxpayer claiming an EITC had a federal adjusted gross income (AGI) equal to \$16,930, \$17,451 for those with AGI greater than zero. For the approximately 704,000 EITC recipients with AGI greater than zero, the Michigan EITC averaged approximately 2.5 percent of AGI. For almost 216,700 taxpayers, the Michigan EITC represented more than 5 percent of AGI.

Table 1 reports 2009 EITC recipients by AGI. The heaviest concentration of EITC returns occurs between \$5,000 and \$15,000 in AGI, with almost 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 \$694 for 2009. This income group is dominated by taxpayers with qualifying children and those taxpayers are beginning the phase out range once income reaches \$16,420 (\$21,420 if filing a joint return).

More than 70 percent of Michigan EITC recipients also claim an income tax exemption for at least one child aged 18 or under. Michigan does not separately collect the federal information on qualifying children, so a good substitute for information on qualifying children for EITC purposes is the number of child exemptions reported by the taxpayer. Table 2 shows the distribution of the Michigan EITC by the number of child exemptions reported. More than 29 percent of the credits are claimed by taxpayers who do not claim a child exemption, 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 \$123, less than 30 percent of the overall average credit. The average credit for those claiming two or more child exemptions is more than \$669.

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 13 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.

Just under 412,300 (52.7 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 HPTC of \$501 was slightly larger than the average EITC of \$477. Total EITC payments to taxpayers who received both credits were \$196.6 million, \$10.1 million less than total HPTC payments (\$206.7 million).

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 more than 60 percent of the credits processed prior to the end of February while less than 36 percent of all individual income tax returns processed during 2010 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 (\$527) is much higher than the average credit on returns processed in March and April (\$380). The early filing of EITC returns no doubt reflects the expectation on the part of the taxpayer for a substantial refund.

In order to observe how the Michigan EITC might have impacted taxpayers, returns claiming the credit for 2009 were matched to the taxpayer's 2008 information, first for taxpayers who also claimed an EITC in 2008 and then for all taxpayers who filed a 2008 return. These matching processes allow for comparisons of how income changed from 2008 to 2009 for EITC recipients. The first match was for EITC recipients in both 2008 and 2009. Of the 782,600 recipients in 2009, approximately 500,700 of them also received a credit in 2008 (64 percent). Table 5 shows the distribution of these claimants by the change in AGI from 2008 to 2009. More than 2/3 of the matched recipients had a change in their income of less than \$5,000, either up or down. Income gains were more common for recipients with a change of \$5,000 or less, with about 14,900 more having a higher AGI than had a lower AGI. Approximately 2,200 recipients reported no change in AGI. The average Michigan EITC for all of these matched recipients ranged from \$469 for those with an income reduction of more than \$25,000 to \$555 for those with an income reduction of between \$10,000 and \$25,000.

Almost 90 percent (691,252 returns) of all EITC returns were matched with their 2008 return. This group will include all of the approximately 500,700 recipients who were matched above. The income change from 2008 to 2009 is a little more diverse when those taxpayers who did not claim an EITC in 2008 are included, with less than ½ of all recipients reporting an income change between -\$5,000 and +\$5,000 (see Table 6). However, there is still a strong concentration of recipients between these ranges (45 percent). The largest average credits are for the group with the biggest income gains. Those recipients whose incomes grew by more than \$10,000 from 2008 to 2009 received credits for 2009 that averaged \$677. Even though Michigan's economy was hit hard by the economic recession throughout 2009, AGI rose for 57 percent of all EITC recipients that were matched. However, the weak economy is reflected by the fact that almost 300,000 claimants saw their income decline from 2008 to 2009. The Michigan EITC helped to reduce the impact of that income reduction by a modest amount.

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

Chart 1

Federal EITC 2009 - Unmarried Filers

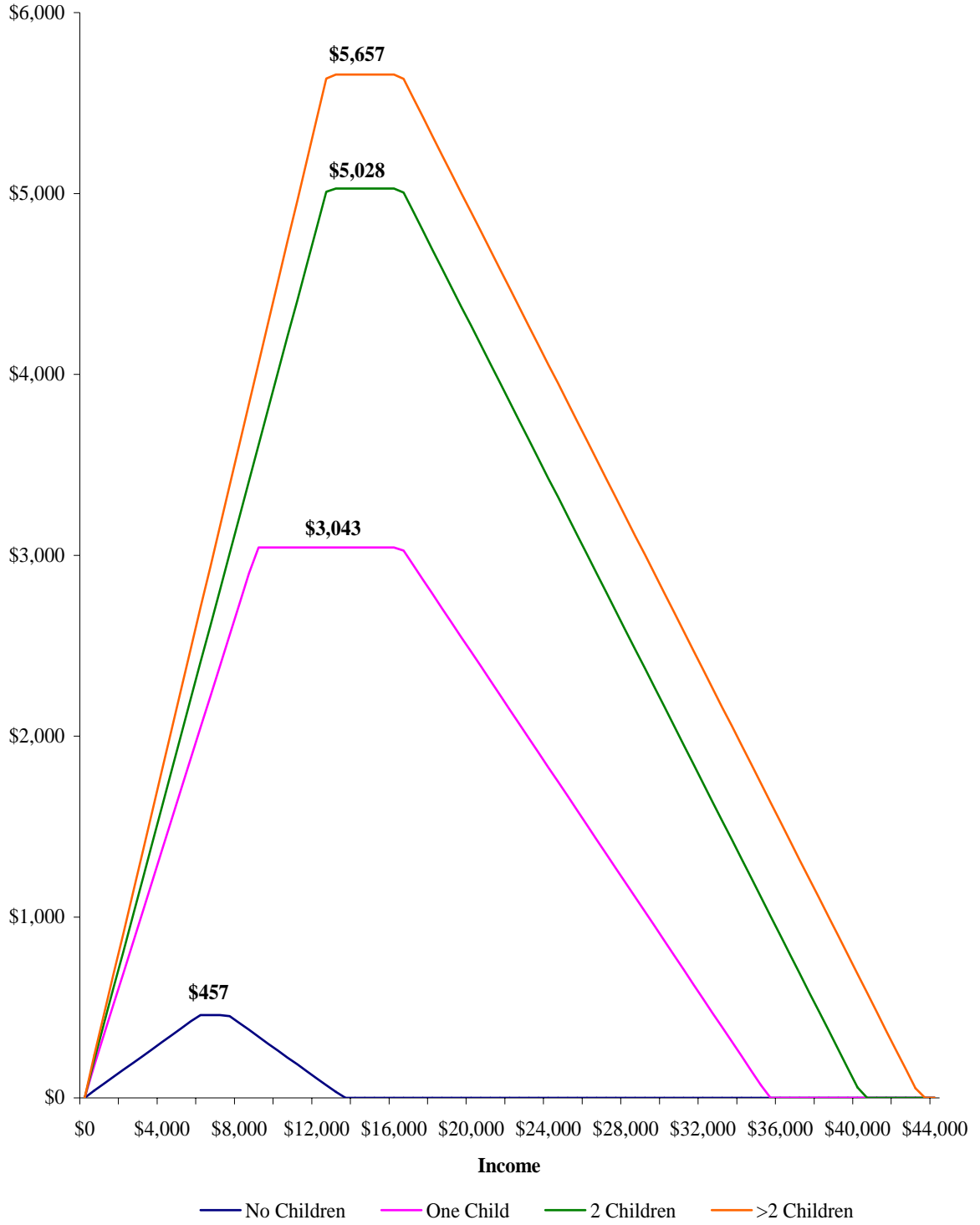


Chart 2

Federal EITC 2009 - Married Filing Jointly

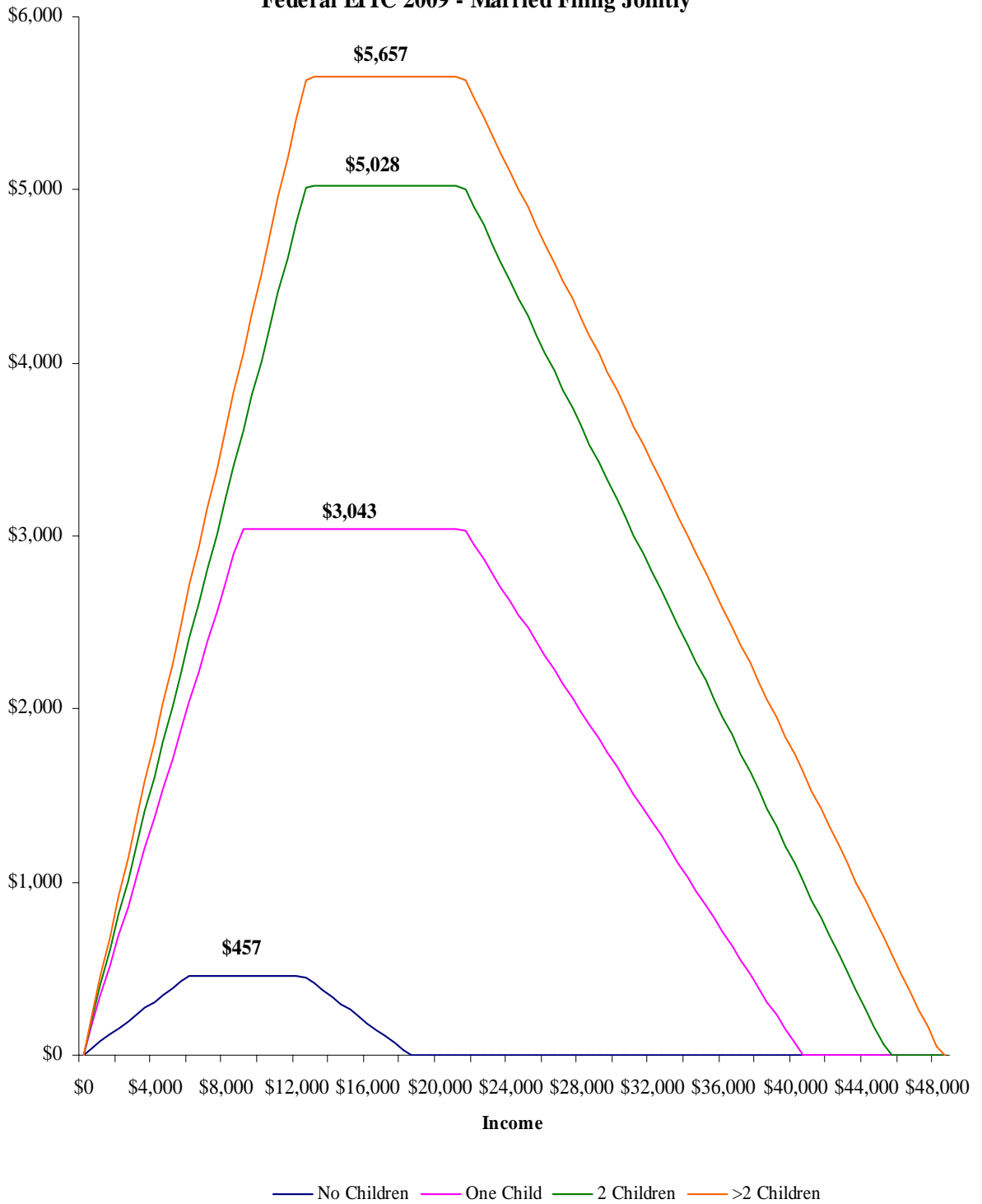


Table 1
EITC Recipients by AGI
Tax Year 2009

<u>AGI Range</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
Less than or = \$0	7,747	-\$35,200	\$225
\$0 - \$5,000	83,027	\$2,806	\$117
\$5,001 - \$10,000	146,145	\$7,728	\$320
\$10,001 - \$15,000	162,214	\$12,322	\$531
\$15,001 - \$20,000	103,289	\$17,381	\$694
\$20,001 - \$25,000	83,799	\$22,443	\$648
\$25,001 - \$30,000	71,898	\$27,433	\$491
More than \$30,000	<u>124,481</u>	\$36,248	\$260
Total	782,600	\$16,930	\$432

Table 2
EITC Recipients by Number of Child Exemptions Claimed
Tax Year 2009

<u>Number of Child Exemptions Reported</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
0	230,164	\$9,362	\$123
1	255,398	\$18,141	\$435
2	194,935	\$21,051	\$646
3	75,223	\$22,771	\$718
4 or more	<u>26,880</u>	\$23,978	\$697
Total	782,600	\$16,930	\$432

Table 3
EITC Recipients by Filing Status
Tax Year 2009

<u>Filing Status</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
No status reported	426	\$14,048	\$331
Single	555,824	\$14,332	\$414
Married filing joint	225,924	\$23,324	\$475
Married filing separate	426	\$17,423	\$405
Total	782,600	\$16,930	\$432

Table 4
EITC Recipients by Processing Date
Tax Year 2009

<u>Return Processed</u>	<u>Count</u>	<u>Cumulative Percent of Total</u>	<u>Total MI EITC</u>	<u>Average MI EITC</u>
January	124,960	16.0%	\$74,938,552	\$600
Feb. 1 - Feb. 14	237,282	46.3%	\$115,821,801	\$488
Feb. 15 - Feb. 28	111,413	60.5%	\$45,720,552	\$410
March	140,218	78.4%	\$49,774,801	\$355
April	112,176	92.8%	\$32,145,604	\$287
After April	56,551	100.0%	\$19,648,647	\$347
Total	782,600		\$338,049,957	\$432

Table 5
EITC Recipients in Both 2008 and 2009
Distribution by Change in AGI
2008 to 2009

<u>Change in AGI</u> <u>From 2008 to 2009</u>	<u>Count</u>	<u>Average</u> <u>MI EITC</u>
< -\$25,000	1,614	\$469
>= -\$25,000 and < -\$10,000	24,378	\$555
>= -\$10,000 and < -\$5,000	50,913	\$513
>= -\$5,000 and < \$0	164,736	\$499
>= \$0 and < \$1,000	59,609	\$499
>= \$1,000 and < \$5,000	122,259	\$519
>= \$5,000 and < \$10,000	51,918	\$537
>= \$10,000	<u>25,259</u>	\$485
Total	500,686	\$511

Table 6
2009 EITC Recipients by Change in AGI
2008 to 2009

<u>Change in AGI</u> <u>From 2008 to 2009</u>	<u>Count</u>	<u>Average</u> <u>MI EITC</u>
< -\$25,000	23,078	\$352
>= -\$25,000 and < -\$10,000	58,270	\$362
>= -\$10,000 and < -\$5,000	66,389	\$370
>= -\$5,000 and < \$0	147,789	\$386
>= \$0 and < \$1,000	49,173	\$366
>= \$1,000 and < \$5,000	113,728	\$358
>= \$5,000 and < \$10,000	85,875	\$407
>= \$10,000	<u>146,950</u>	\$677
Total	691,252	\$440