

**MICHIGAN EARNED INCOME
TAX CREDIT
Tax Year 2008**



**Office of Revenue and Tax Analysis
Michigan Department of Treasury
March 2010**

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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 may 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. For tax years after 2008, the Michigan credit increases 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 2008, the first year the credit was available. The data presented here are based on more than 700,000 tax returns that claimed and received an EITC for 2008. In addition, returns with a 2008 EITC were matched with the taxpayer’s 2007 return, when available. The matched returns allow for a comparison with the taxpayer’s prior year return.

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. Almost 16 percent of all tax returns claimed an EITC in 2007, the latest year for which complete data are available. For 2008, the credit may be as large as \$4,824 for a family with two or more qualifying children.

The EITC has three distinct ranges, depending upon an eligible taxpayer’s income. Charts 1 and 2 depict the 2008 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, and 40 percent for recipients with two or more qualifying children. The income subsidy range ends at \$5,720 for recipients without qualifying children, resulting in a maximum credit of \$438 for 2008. For recipients with one qualifying child, the subsidy range ends at \$8,580 resulting in a maximum credit of \$2,917. For recipients with two or more qualifying children, the subsidy range ends at \$12,060 resulting in a maximum credit of \$4,824.

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 \$5,720 and \$7,160 for recipients without qualifying children who are not married and filing a joint return, between \$8,580 and \$15,740 for recipients with one qualifying child and not filing a joint return, and between \$12,060 and \$15,740 for recipients with two 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 2008 is extended by \$3,000 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 \$7,160, and the credit is eliminated for incomes over \$12,880 for taxpayers whose filing status is single or head of household. The phase out range begins at \$10,160 and is completed at \$15,880 for those filing a joint return without qualifying children. For unmarried recipients with one qualifying child, the phase out begins at \$15,740 and is complete at \$33,995. As a result, the credit is reduced by approximately 16 percent of any income above \$15,740. The phase out range begins at \$18,740 and is completed at \$36,995 for those with two or more qualifying children who file a joint return. For unmarried recipients with two or more qualifying children, the phase out begins at \$15,740 and is complete at \$38,646. As a result, the credit is reduced by approximately 21 percent of any income above \$15,740. The phase out range begins at \$18,740 and is completed at \$41,646 for those with two or more qualifying children who file a joint return.

2008 Michigan EITC

For tax year 2008, more than 711,000 taxpayers received the Michigan EITC. More than \$145.2 million in total credits were claimed, with the average credit equal to \$204. The average taxpayer claiming an EITC had a federal adjusted gross income (AGI) equal to \$15,805. For the approximately 704,000 EITC recipients with AGI greater than zero, the Michigan EITC averaged approximately 2 percent of AGI. For almost 5,500 taxpayers, the Michigan EITC represented more than 5 percent of AGI.

Table 1 reports 2008 EITC recipients by AGI. The heaviest concentration of EITC returns occurs between \$5,000 and \$15,000 in AGI, with more than 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 \$351 for 2008. This income group is dominated by taxpayers with qualifying children and those taxpayers are beginning the phase out range once income reaches \$15,740 (\$18,740 if filing a joint return).

More than 70 percent of Michigan EITC recipients also claim an income tax exemption for a 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 28 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 \$60, approximately 30 percent of the overall average credit. The average credit for those claiming two or more child deductions is more than \$300.

The vast majority of EITC recipients are unmarried, with more than 75 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 9 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.

More than 387,500 (54.4 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 income specified in statute. For those taxpayers who received both credits, the average HPTC was more than twice as big as the average EITC. While total EITC payments to taxpayers who received both credits were sizable (\$87.8 million), total HPTC payments were much larger (\$194.5 million). The two credits should be comparable in size for tax years 2009 and following as the Michigan EITC increases to 20 percent of the federal credit.

EITC claimants on average file their returns earlier than the average Michigan taxpayer. The distribution of EITC 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 only 1/3 of all individual income tax returns processed during 2009 were completed by the end of February. The early filing of EITC returns no doubt reflects the expectation on the part of the taxpayer for a substantial refund. 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 is much higher than the average credit on returns processed in March and April.

In order to observe how the Michigan EITC might have impacted taxpayers, returns claiming the credit for 2008 were matched to the taxpayer's 2007 information. This would allow for an examination of how income changed from 2007 to 2008 for EITC recipients. Approximately 90 percent (632,100 returns) of all EITC returns were matched with their 2007 return. The Michigan EITC is refundable, so eligible taxpayers may receive any credit that exceeds their income tax liability as a refund. As a result, taxpayers who do not have a tax liability or a filing requirement under Michigan law may now file a Michigan return in order to claim their EITC and receive their refund. However, new filers would not have a 2007 return on file with the Department.

Even though Michigan's economy was sluggish throughout 2008 and was severely impacted by the escalating financial crisis, AGI rose for more than 60 percent of all EITC recipients that were matched. Table 5 presents the distribution of the Michigan EITC by the change in AGI. The largest average credit was for the group that saw an increase in AGI of more than \$10,000. However, the weak economy is reflected by the fact that almost 250,000 claimants saw their income decline from 2007 to 2008. The new Michigan EITC helped to reduce the impact of that income reduction by a modest amount. The EITC will continue to provide assistance to low-income, working families as the piggy-back percentage rises to 20 percent for tax year 2009.

If you have questions on this report, please contact Scott Darragh at (517) 373-2697.

Chart 1

Federal EITC 2008 - Unmarried Filers

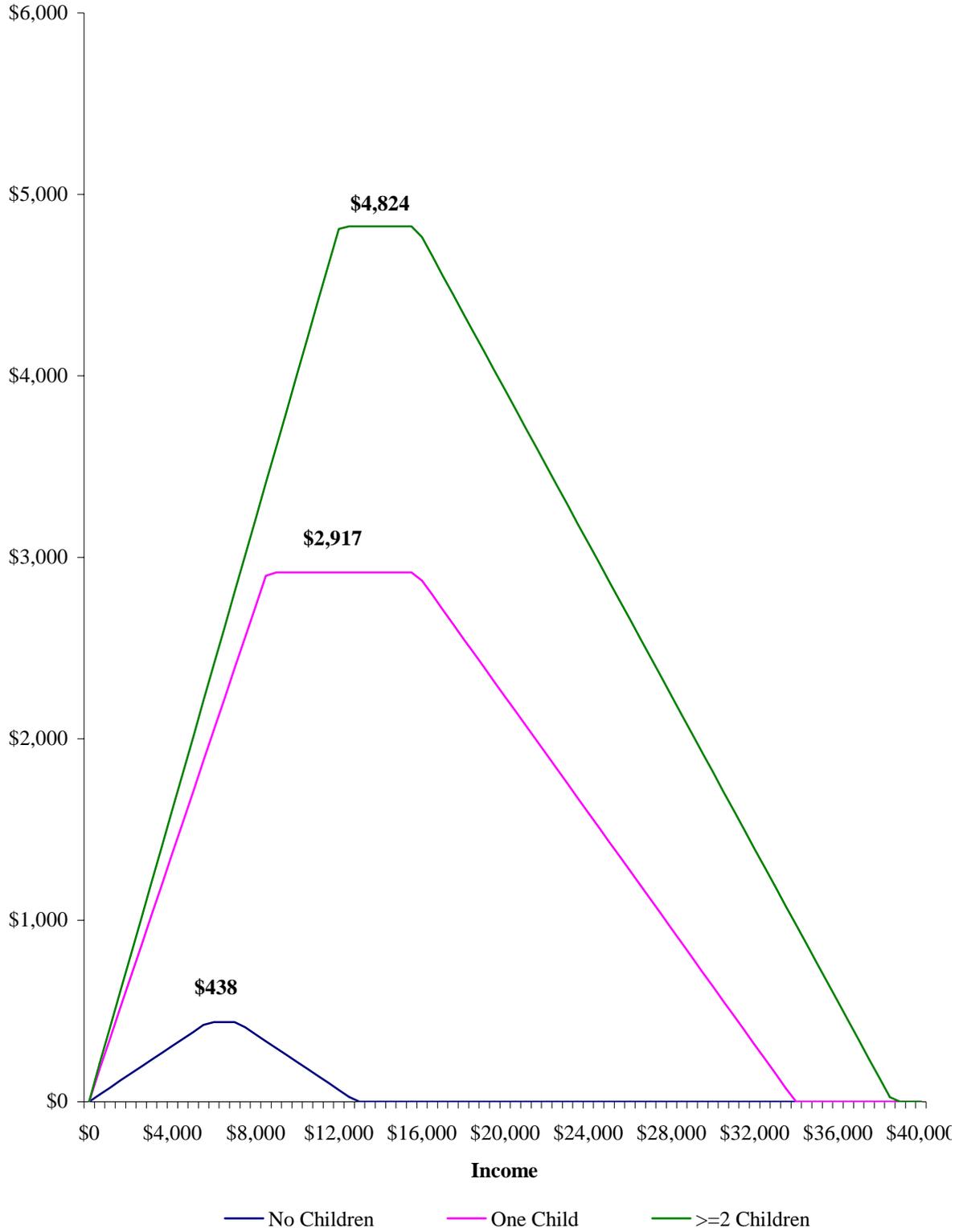


Chart 2

Federal EITC 2008 - Married Filing Jointly

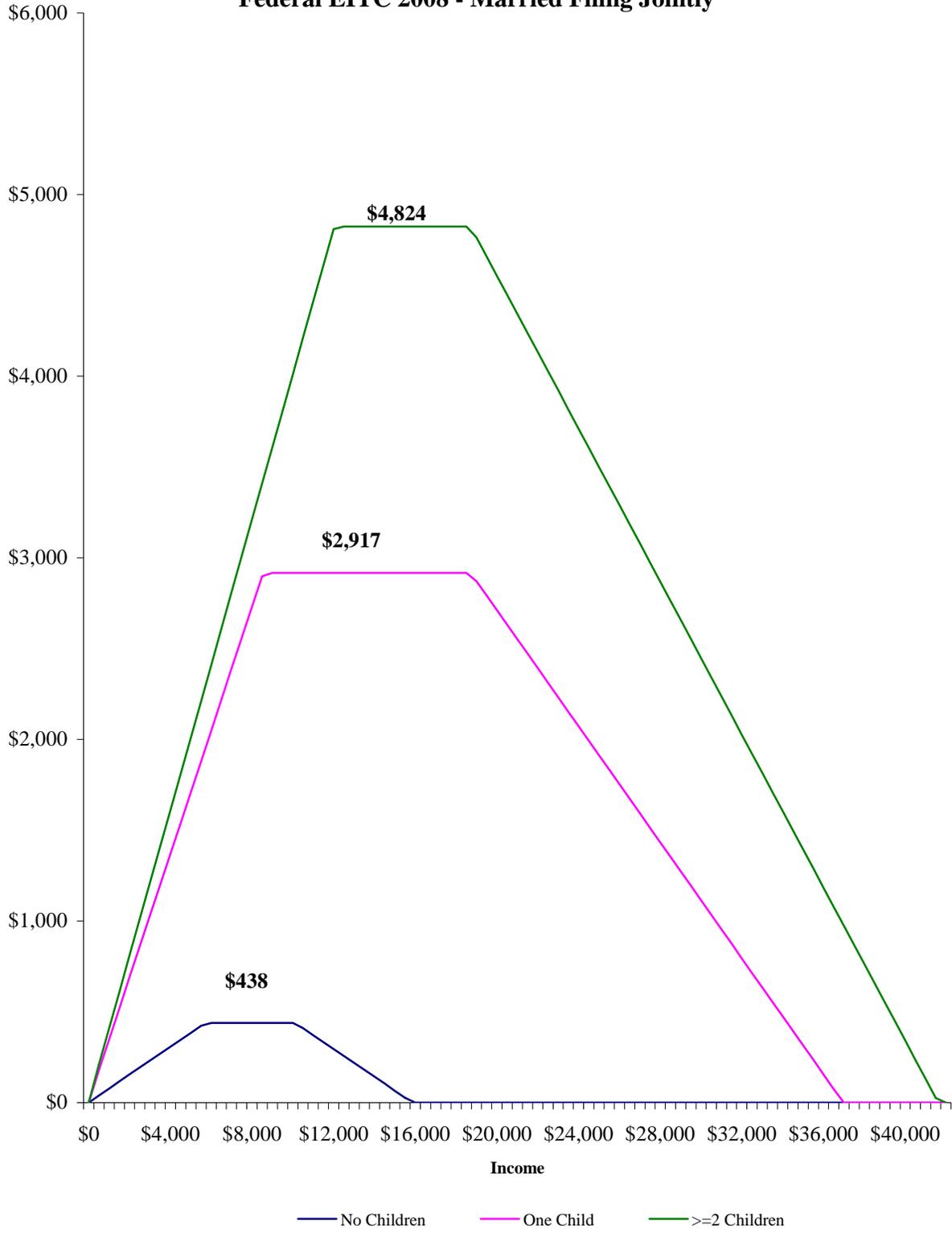


Table 1
EITC Recipients by AGI

<u>AGI Range</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
Less than or = \$0	7,536	\$27,061	\$102
\$0 - \$5,000	85,556	\$2,855	\$61
\$5,001 - \$10,000	141,657	\$7,663	\$160
\$10,001 - \$15,000	146,682	\$12,283	\$276
\$15,001 - \$20,000	92,878	\$17,376	\$351
\$20,001 - \$25,000	80,509	\$22,446	\$276
\$25,001 - \$30,000	70,272	\$27,447	\$189
More than \$30,000	<u>86,267</u>	\$34,378	\$93
Total	711,357	\$15,805	\$204

Table 2
EITC Recipients by Number of Child Exemptions Claimed

<u>Number of Child Exemptions Reported</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
0	200,713	\$8,522	\$60
1	239,630	\$17,213	\$208
2	192,607	\$19,469	\$313
3	55,922	\$21,000	\$296
4 or more	<u>22,485</u>	\$21,512	\$296
Total	711,357	\$15,805	\$204

Table 3
EITC Recipients by Filing Status

<u>Filing Status</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
No status reported	497	\$14,147	\$160
Single	535,676	\$14,134	\$199
Married filing joint	174,709	\$20,926	\$219
Married filing separate	<u>475</u>	\$18,071	\$213
Total	711,357	\$15,805	\$204

Table 4
EITC Recipients by Processing Date

<u>Return Processed</u>	<u>Count</u>	<u>Cumulative Percent of Total</u>	<u>Total MI EITC</u>	<u>Average MI EITC</u>
January	102,157	14.4%	\$26,603,300	\$260
Feb. 1 - Feb. 14	223,537	45.8%	\$54,527,600	\$244
Feb. 15 - Feb. 28	111,753	61.5%	\$21,965,300	\$197
March	121,018	78.5%	\$20,611,400	\$170
April	92,629	91.5%	\$12,527,500	\$135
After April	<u>60,263</u>	100.0%	<u>\$8,980,000</u>	\$149
Total	711,357		\$145,215,100	\$204

Table 5
EITC Recipients by Change in AGI
2007 to 2008

<u>Change in AGI</u> <u>From 2007 to 2008</u>	<u>Count</u>	<u>Average</u> <u>MI EITC</u>
< -\$25,000	22,884	\$179
-\$25,000 to -\$10,000	47,824	\$171
-\$10,000 to -\$5,000	51,562	\$176
-\$5,000 to \$0	125,540	\$182
\$0 to \$1,000	49,268	\$167
\$1,000 - \$5,000	115,093	\$166
\$5,000 - \$10,000	84,035	\$198
> \$10,000	<u>135,882</u>	\$315
Total	632,088	\$207