

**MICHIGAN EARNED INCOME
TAX CREDIT
Tax Year 2010**



**Office of Revenue and Tax Analysis
Michigan Department of Treasury
February 2012**

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Acknowledgments

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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 2010, the third year the credit was available and the second tax year with the higher piggy-back rate of 20 percent. The data presented here are based on approximately 783,360 tax returns that claimed and received an EITC for 2010. In addition, returns with a 2010 EITC were matched with the taxpayer’s 2009 return, when available. The match was done for taxpayers who also claimed a 2009 EITC, and for all 2009 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 19 percent of all tax returns filed nationally claimed an EITC for 2009, the latest year for which complete data are available. In Michigan, 18.4 percent of all returns filed claim a federal EITC. The federal EITC for tax years 2009 through 2012 was increased for some married couples and for taxpayers with three or more qualifying children. For 2010, the credit may be as large as \$5,666 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 2010 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 \$5,980 for recipients without qualifying children, resulting in a maximum credit of \$457 for 2010. For recipients with one qualifying child, the subsidy range ends at \$8,970 resulting in a maximum credit of \$3,050. For recipients with two and three or more qualifying children, the subsidy range ends at \$12,590 resulting in maximum credits of \$5,036 and \$5,666, 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 \$5,980 and \$7,480 for recipients without qualifying children who are not married and

filing a joint return, between \$8,970 and \$16,450 for recipients with one qualifying child and not filing a joint return, and between \$12,590 and \$16,450 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 2010 is extended by \$5,010 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 \$7,470, and the credit is eliminated for incomes over \$13,460 for taxpayers whose filing status is single or head of household. The phase out range begins at \$12,490 and is completed at \$18,470 for those filing a joint return without qualifying children. For unmarried recipients with one qualifying child, the phase out begins at \$16,450 and is complete at \$35,535. As a result, the credit is reduced by approximately 16 percent of any income above \$16,450. The phase out range begins at \$21,460 and is completed at \$40,545 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 \$16,450. For recipients with two qualifying children the phase out is complete at \$40,363, while the phase out is complete at \$43,352 for recipients with three or more qualifying children. As a result, the credit is reduced by approximately 21 percent of any income above \$16,450. The phase out range begins at \$21,460 and is completed at \$45,373 for those joint filers with two qualifying children, and at \$48,362 for joint filers with three or more qualifying children.

2010 Michigan EITC

For tax year 2010, more than 783,000 taxpayers received the Michigan EITC. More than \$340.8 million in total credits were claimed, with the average credit equal to \$435. The average taxpayer claiming an EITC had a federal adjusted gross income (AGI) equal to \$16,911, \$17,488 for those with AGI greater than zero. For the approximately 776,500 EITC recipients with AGI greater than zero, the Michigan EITC averaged approximately 2.5 percent of AGI. For more than 216,700 taxpayers, the Michigan EITC represented more than 5 percent of AGI.

Table 1 reports 2010 EITC recipients by AGI. The heaviest concentration of EITC returns occurs between \$5,000 and \$15,000 in AGI, with 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 \$706 for 2010. 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 \$16,450.

Approximately 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. Approximately 30 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 \$126, less than 30 percent of the overall average credit. The average credit for those claiming two or more child exemptions is \$888.

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 12 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 411,900 (52.6 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 \$494 was slightly larger than the average EITC of \$484. Total EITC payments to taxpayers who received both credits were \$199.2 million, \$4.1 million less than total HPTC payments (\$203.3 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 almost 60 percent of the credits processed prior to the end of February while less than 35 percent of all individual income tax returns processed during 2011 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 (\$547) is much higher than the average credit on returns processed in March and April (\$330). 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 2010 were matched to the same filer's 2009 information, first for taxpayers who also claimed an EITC in 2009 and then for all taxpayers who filed a 2009 return. These matching processes allow for comparisons of how income changed from 2009 to 2010 for EITC recipients. The first match was for EITC recipients in both 2009 and 2010. Of the 783,360 recipients in 2010, approximately 537,310 of them also received a credit in 2009 (69 percent). Table 5 shows the distribution of these claimants by the change in AGI from 2009 to 2010. Approximately 70 percent 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 48,720 more having a higher AGI than had a lower AGI. Approximately 2,630 recipients reported no change in AGI. The average Michigan EITC for all of these matched recipients ranged from \$458 for those with an income gain of \$10,000 or more to \$561 for those with an income reduction of between \$10,000 and \$25,000.

Almost 87 percent (680,470 returns) of all 2010 EITC returns were matched with their 2009 return. This group will include all of the approximately 537,310 recipients who were matched above having claimed an EITC in both years. Undoubtedly some 2010 claimants, while not filing a 2009 income tax return, may have filed a Michigan homestead property tax or home heating credit. These credit-only filers were not included in the matching process. The income change from 2009 to 2010 is similar when those taxpayers who did not claim an EITC in 2009 are included, with 64 percent of all recipients reporting an income change between -\$5,000 and +\$5,000 (see Table 6). The additional returns with large income changes that did not claim an EITC in 2009 generally had large income declines from 2009 to 2010. The average credit generally rises with larger income gains, except for the group an income gain of more than \$10,000. Those recipients whose incomes grew by between \$5,000 and \$10,000 from 2009 to 2010 received credits for 2010 that averaged \$490. AGI rose for 53 percent of all EITC recipients that were matched for 2009 and 2010. Income fell for 315,630 of the matched EITC claimants in 2010, although the decline was less than \$5,000 for more than 193,200 of these claimants.

Of the approximately 246,000 EITC claimants for 2010 who did not claim an EITC for 2009, approximately 143,000 filed a 2009 Michigan income tax return. Approximately 10 percent of these filers (15,000) had a change of marital status. The most common change (10,700 returns) was from married to single. The relatively stable marital status of filers is consistent with the decline in national marriage and divorce rates during the national recession. Approximately 103,000 EITC claimants in 2010 did not file a 2009 Michigan income tax return.

There were also approximately 246,000 EITC claimants for the 2009 tax year who did not claim an EITC for tax year 2010. Of this total, approximately 157,000 filed a 2010 tax return without claiming an EITC and 89,000 did not file a 2010 return (some may have filed a credit-only return). For the 157,000 previous claimants who filed a 2010 return, 71 percent reported a higher income in 2010 than in 2009 with 38 percent, or more than 59,000, experiencing an income gain of \$10,000 or more. As income rises above \$16,450 for single filers or \$21,460 for joint filers the EITC is reduced, so income gains for some filers may make them no longer eligible for the EITC. Significant income gains may reflect a move from part-time to full-time employment or perhaps new employment for one spouse on a joint return.

There is very little change in marital status among the 157,000 who claimed an EITC in 2009 but not 2010. Less than 10 percent of these claimants reported a different marital status in 2010. However, the most common change was for claimants who were single in 2009 to file as a married taxpayer in 2010.

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

Chart 1
Federal EITC 2010 – Unmarried Filers

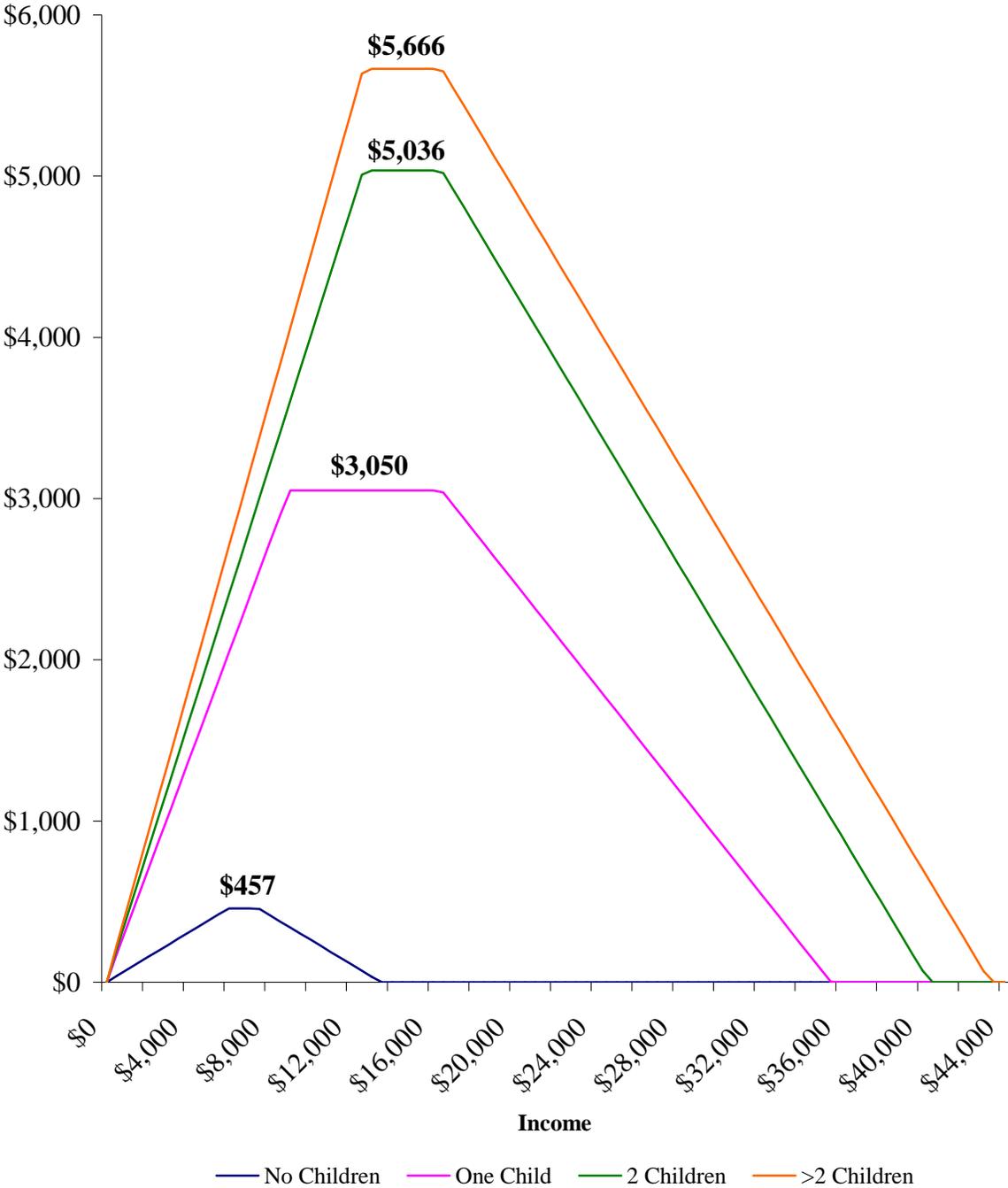


Chart 2
Federal EITC 2010 – Married Filing Jointly

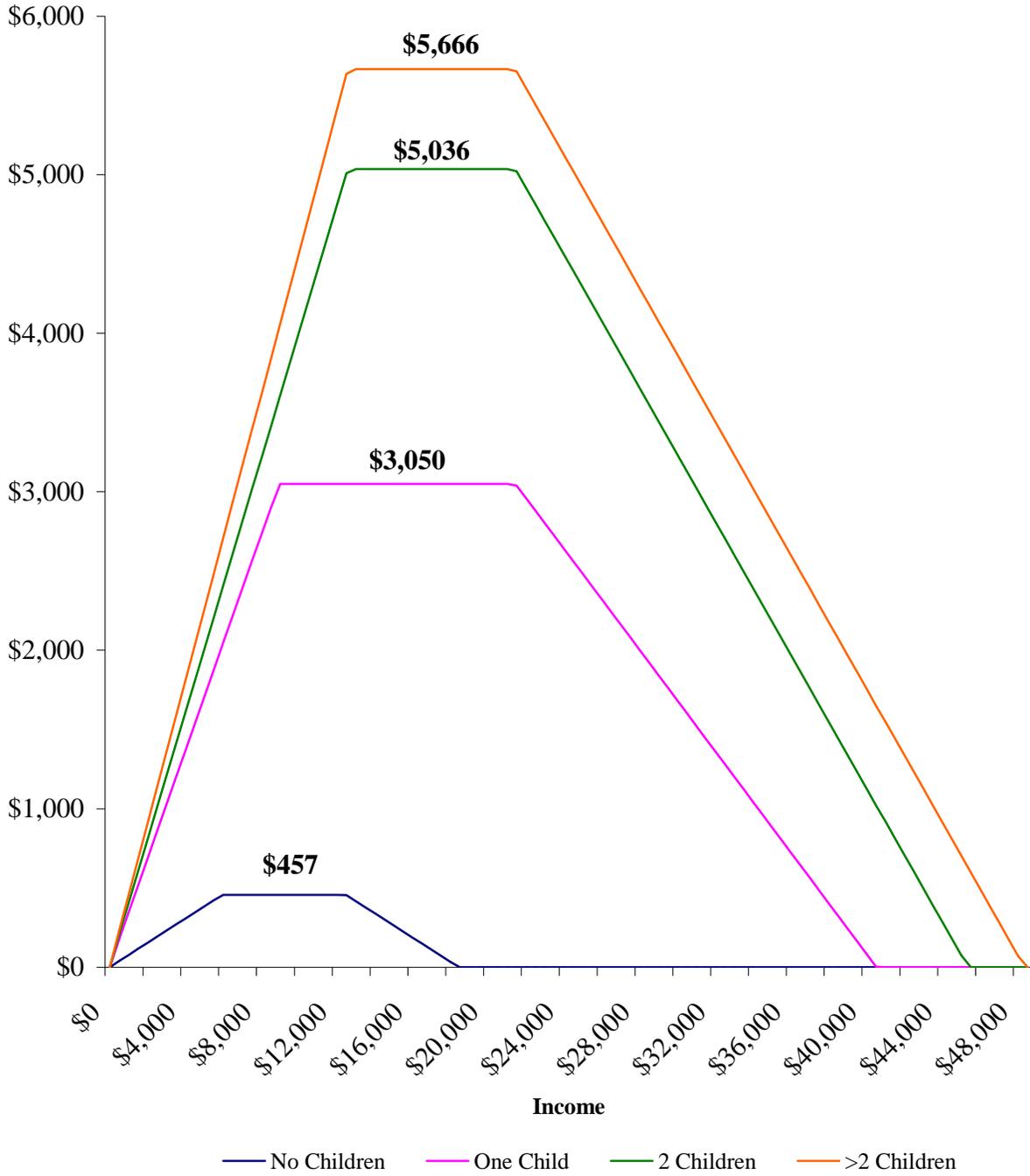


Table 1
EITC Recipients by AGI
Tax Year 2010

<u>AGI Range</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
Less than or = \$0	6,840	-\$48,642	\$227
\$1 - \$5,000	79,380	\$2,829	\$110
\$5,001 - \$10,000	145,540	\$7,790	\$317
\$10,001 - \$15,000	168,270	\$12,341	\$536
\$15,001 - \$20,000	103,530	\$17,356	\$706
\$20,001 - \$25,000	84,410	\$22,447	\$637
\$25,001 - \$30,000	71,650	\$27,438	\$491
More than \$30,000	<u>123,750</u>	\$36,265	\$260
Total	783,370	\$16,911	\$435

Note: Counts are rounded to the nearest 10.

Table 2
EITC Recipients by Number of Child Exemptions Claimed
Tax Year 2010

<u>Number of Child Exemptions Reported</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
0	235,450	\$9,571	\$126
1	258,230	\$18,217	\$441
2	187,520	\$20,922	\$657
3	76,040	\$22,719	\$734
4 or more	<u>26,120</u>	\$24,448	\$701
Total	783,360	\$16,911	\$435

Note: Counts are rounded to the nearest 10.

Table 3
EITC Recipients by Filing Status
Tax Year 2010

<u>Filing Status</u>	<u>Count</u>	<u>Average AGI</u>	<u>Average MI EITC</u>
No status reported	230	\$15,614	\$270
Single	568,540	\$14,542	\$420
Married filing joint	213,880	\$23,195	\$476
Married filing separate	<u>710</u>	\$21,132	\$420
Total	783,360	\$16,911	\$435

Note: Counts are rounded to the nearest 10.

Table 4
EITC Recipients by Processing Date
Tax Year 2010

<u>Return Processed</u>	<u>Percent of Total</u>	<u>Cumulative Percent of Total</u>	<u>Average MI EITC</u>
January	14.9%	14.9%	\$612
Feb. 1 - Feb. 14	28.5%	43.4%	\$499
Feb. 15 - Feb. 28	15.8%	59.2%	\$419
March	19.9%	79.1%	\$366
April	13.3%	92.4%	\$275
After April	<u>7.6%</u>	100.0%	\$353
Total	100.0%		\$436

Table 5
EITC Recipients in Both 2009 and 2010
Distribution by Change in AGI
2009 to 2010

<u>Change in AGI</u> <u>From 2009 to 2010</u>	<u>Count</u>	<u>Average</u> <u>MI EITC</u>
< -\$25,000	2,080	\$514
>= -\$25,000 and < -\$10,000	20,100	\$561
>= -\$10,000 and < -\$5,000	39,360	\$504
>= -\$5,000 and < \$0	162,390	\$481
>= \$0 and < \$1,000	68,210	\$482
>= \$1,000 and < \$5,000	142,900	\$506
>= \$5,000 and < \$10,000	67,330	\$514
>= \$10,000	34,940	\$458
Total	537,310	\$495

Note: Counts are rounded to the nearest 10.

Table 6
2010 EITC Recipients by Change in AGI
2009 to 2010

<u>Change in AGI</u> <u>From 2009 to 2010</u>	<u>Count</u>	<u>Average</u> <u>MI EITC</u>
< -\$25,000	20,850	\$363
>= -\$25,000 and < -\$10,000	43,610	\$371
>= -\$10,000 and < -\$5,000	57,960	\$394
>= -\$5,000 and < \$0	193,210	\$435
>= \$0 and < \$1,000	76,190	\$455
>= \$1,000 and < \$5,000	163,720	\$477
>= \$5,000 and < \$10,000	80,660	\$491
>= \$10,000	44,270	\$452
Total	680,470	\$445

Note: Counts are rounded to the nearest 10.