



ADVOCACY ON BEHALF OF

# Those in Need

Making ends meet each month can be a challenging task for thousands of Michigan families. Between regular expenses such as rent, utilities, food, clothing, childcare, and repairs, the obligation of monthly bills can create hardship. For many individuals and those with families, a consistent paycheck may not cover all the monthly costs, thereby creating a source of anxiety and stress, especially if emergencies or unexpected bills arise.

While personal circumstances and sources of employment vary, Michiganders strive daily to provide for themselves and their loved ones. Regardless of how much a person earns or achieves, every person is deserving of respect and support. As people of faith, recognizing the inherent dignity in every person—whether a fellow community member, neighbor, family member, friend, or stranger—should be more than a nice soundbite; it must be lived in everyday encounters.

For Michigan Catholic Conference (MCC), the official public policy voice of the Catholic Church in this state, advocacy is one way to recognize the value each person embodies. MCC carries out this work within the sphere of state government, advocating for all people to have access

to basic needs: food, clothing, shelter, and health care. One policy that helps to protect basic needs and provide relief to low-income workers is the state Earned Income Tax Credit (EITC). Modeled after the federal version passed in 1975, the state EITC is a refundable credit available to those who are currently employed, offsetting much or all of their payroll taxes.

The state EITC recognizes that hardworking Michiganders often make tough choices to provide for themselves or their families. For those who struggle to bring home a paycheck from a low-wage job, for example, the choice may be between another trip to the store for groceries or a new outfit for a child starting school, between paying for a car repair or assisting with the month's utility bills. The federal and state EITC do not eliminate the expenses families face, but they do help those expenses become a little more affordable.

Public policies such as the Earned Income Tax Credit are a great source of encouragement and hope. They reward responsibility and hard work while lifting a significant number of individuals out of poverty. This **focus** will examine a history of the state EITC, its benefit for Michigan workers and communities, and reasons why the credit should be increased to provide greater support for those in need. ■

## STATE EITC

# by the Numbers<sup>1</sup>

ALMOST  
**748,600**  
RECIPIENTS

TOTAL ASSISTANCE  
**\$112**  
MILLION

AVERAGE CREDIT  
**\$150**  
PER CLAIMANT

# HISTORY OF THE EITC

Before Michigan's Earned Income Tax Credit became a reality, the EITC policy was first adopted at the federal level in 1975. At the time, President Gerald Ford signed it into law as a temporary credit, seeking to incentivize work, to improve economic growth within the country, and to help families combat rising energy and food costs. The initiative was also touted as a potential response to growing numbers of Americans requesting welfare—known at the time as Aid to Families with Dependent Children or AFDC—as policymakers sought to shift more people into the labor force. When first passed, the federal EITC was available to those with work-related sources of income that also had children.<sup>2</sup> Since then, the refundable credit has expanded its eligibility as individuals without children may receive the credit, (albeit at a lower rate.) The credit has found continued support from presidents and congressional leaders of both political parties.

Michigan passed its own version of the credit in 2006, offering qualifying individuals twenty percent of the federal credit. While the policy had a significant impact on its intended recipients, tax policy reform discussions in 2011 nearly led to its elimination. At that time, Michigan Catholic Conference championed efforts to preserve the credit at six percent. More recently, during state budget discussions for Fiscal Year 2019–2020, the Governor's Executive Budget Recommendations proposed doubling the state EITC to twelve percent of the federal credit. The proposal had the potential to improve the lives of hundreds of thousands of Michiganders, but in the end the policy was not included in the overall state budget. While Michigan remains one of twenty-nine states that offers a state EITC, MCC will continue to advocate for the state credit to be expanded. ■

## EITC Timeline

1975

President Ford signed the federal EITC into law as the Tax Reduction Act.

2006

Michigan adopted a state EITC at 20 percent of the federal credit.

2011

The state credit was cut to 6 percent of the federal EITC.

2019

A proposal to raise the state EITC to 12 percent was not included in the final 2019–2020 state budget.

## WHY IS THE EITC

# Effective?

### The tax credit has proven to lift families and children out of poverty.

By placing more money back in the pockets of working families, the EITC has become one of the most effective policies for assisting families and children in poverty, in both urban and rural communities.<sup>3</sup> The federal version of the credit helped lift three million children—and almost six million people total—out of poverty in 2017. It also helped reduce the severity of poverty for over seven million children.<sup>4</sup> Estimates from the U.S. Census Bureau in 2018 show that Michigan's overall poverty-rate is approximately 14.2 percent.<sup>5</sup> Helping Michiganders to extend further their paychecks and to improve lived realities is a goal worth prioritizing in the state.

### It incentivizes employment.

Those who are not receiving work-related income are not eligible to receive the credit. By design, the federal and state Earned Income Tax Credits encourage individuals to join the labor force or to increase their work hours for extra income support. With these goals in mind, the EITC allows recipients to transition toward a more stable future. While increasing levels of employment can benefit productivity in local communities, increasing employment also has benefits for the worker. In the words of Pope Francis, employment helps individuals flourish, as work is “the most common form of cooperation that humanity has generated” and “a form of civil love...that enables us to live.”<sup>6</sup> Work allows each person to participate in God's creation, to share their gifts with one another, to provide for their families, and to express their voice in society. Incentivizing and encouraging more residents to participate in the labor market has significant positive benefits for the community as a whole.



**It improves outcomes for Americans.**

The EITC and other tax credits for working families have been shown to positively impact numerous community outcomes, including “improved infant and maternity health, greater college enrollment, and increased earnings in the next generation.”<sup>8</sup> Research shows that the policy has significantly assisted single mothers, leading to higher rates of employment, larger wage growth in subsequent years, increased Social Security retirement benefits for the future, and reduced rates of cash assistance.<sup>9</sup> Additionally, the EITC, with its requirement for recipients to work, helps to reduce the stigma around the assistance. Those who receive the refund feel a greater sense of pride in having earned the credit.<sup>10</sup> ■

FURTHER  
**Reading**

The federal and state Earned Income Tax Credits provide needed support for workers, families, and communities. Increasing the state EITC to twelve percent of the federal credit—or restoring it to its initial level of twenty percent—would produce greater benefits for low-income workers in Michigan. To learn more about how each credit works, visit the following sites:

**Federal EITC**

- [irs.gov/eitc](http://irs.gov/eitc)
- [tinyurl.com/federal-eitc](http://tinyurl.com/federal-eitc)

**Michigan EITC**

- [michigan.gov/incometax](http://michigan.gov/incometax)
- [mlpp.org/eitc](http://mlpp.org/eitc)

**It benefits local communities.**

The federal and state Earned Income Tax Credit benefits families across Michigan. Research has found that these policies positively impact local economies, as recipients often use the refund to purchase goods and services, boosting spending at area repair shops, grocery and hardware stores, and other small businesses. A 2009 Anderson Economic Group study found that most spending from the federal EITC refunds “occurs....at the retail level on durable goods such as appliances, home electronics, and vehicles” that can be found in local communities.<sup>7</sup> Research shows that funding for the state Earned Income Tax Credit is spent within Michigan, confirming that the policy is an effective way to return money to low- to moderate-income workers. It also raises awareness about the federal EITC, which further contributes to Michigan’s economy.

EITC  
**Eligibility**  
TAX YEAR 2018

Income	Income Married Filed Jointly	Number of Kids	Maximum Federal Credit	Maximum State Credit
\$49,194	\$54,884	3 or more	\$6,431	\$386
\$45,802	\$51,492	2	\$5,716	\$343
\$40,320	\$46,010	1	\$3,461	\$208
\$15,270	\$20,950	none	\$519	\$31

# Those in Need

A *Blueprint for the Common Good*—MCC’s guiding principles for legislative action during the biennial legislative session—emphasizes the importance of hearing, advocating for, and empowering low-income workers and families. It reads:

*“The true measure of a just society is how well the most vulnerable are faring. Engaging the voices and needs of the poor and vulnerable are critical toward the making of good public policy.”*

MCC’s support for the EITC is further grounded in its mission to advocate for policies that promote the dignity of the human person and the common good. Such policies recently adopted by the Michigan Legislature and supported by MCC include:

## Marriage Grace Period

Allows the State of Michigan to temporarily “disregard” a new spouse’s income when determining the family’s eligibility for the Family Independence Program, for eighteen months. Previous policy forced low-income couples with children to choose between marriage or receiving cash assistance for their kids.

## Medicaid Expansion

Provides those who earn up to 133 percent of the federal poverty level with the opportunity to visit primary care physicians and receive preventative health care services.

## Heat and Eat

Offers additional state energy assistance to maximize federal food assistance for approximately 160,000 recipients—including the elderly and persons with disabilities.

## Children’s Clothing Allowance

Assists Michigan’s low-income families who qualify for the Family Independence Program to purchase school clothing for the recipients’ children.

## Homeless Emergency Shelter Per Diem Rate

Provides funding for improved emergency and transitional services for the homeless.

## Weatherization Assistance

Helps low-income individuals receive a credit for home heating fuel costs and encourages energy efficiency and a reduction in energy costs. ■

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4. “Policy Basics: The Earned Income Tax Credit,” Center on Budget and Policy Priorities (CBPP), updated 6/21/19: [tinyurl.com/t4tklmp](http://tinyurl.com/t4tklmp).
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7. “Economic Benefits of the EITC in Michigan,” Anderson Economic Group, 8/31/09: [tinyurl.com/yywo5dh9](http://tinyurl.com/yywo5dh9).
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