



Thursday, January 24, 2008

Tax break for poor may cost far less New Earned Income Tax Credit will cost state \$41M, not more than \$100M, economist says.

Mark Hornbeck / Detroit News Lansing Bureau

LANSING -- A new Michigan tax break for the working poor that took effect this month will cost the state budget considerably less than initially estimated, an economist reported Wednesday.

The Michigan Earned Income Tax Credit, which for the first time this year will piggyback on the federal credit and could benefit about 600,000 families, has been projected to cost next year's state budget more than \$100 million and more than twice that when fully phased in the following year.

But the net cost will be about \$41 million in the first year and \$100 million in the second year when the state takes into account the reduced burden on government programs for the poor and wage-earners who get the relief and will return some of it to the state via sales tax and other levies, said East Lansing-based economist Patrick Anderson. He was hired by the Michigan Catholic Conference to study the issue.

"There is still a cost to the state budget, but not nearly as high as you would expect," Anderson said. "This is a very low-cost program that helps get our society where it wants to go."

State Budget Director Bob Emerson said next year's state budget will include a \$129 million cost for the credit -- but that doesn't allow for the mitigating factors and assumes everyone who is eligible for the break will claim it, which is unlikely.

"This is wonderful economic policy as well as social policy," said Emerson, who was a leading advocate for the legislation when he was in the state Senate.

Under the program, taxpayers who qualify for the federal Earned Income Tax Credit can claim 10 percent of their federal credit amount on their Michigan income tax beginning in the 2008 tax year. Starting in 2009, the state credit is 20 percent of the federal amount.

A single mom with two children and earning the minimum wage would get a state credit of \$478 for the 2008 tax year, according to the Michigan League for Human Services.

"That can buy food for a family for a month with \$100 left over for shoes for growing children," said Ann Marston, president of the league.

The Michigan Earned Income Tax Credit was passed into law in 2006 as part of negotiations over a raise in the state minimum wage.

Sen. Nancy Cassis, R-Nov, has introduced a bill that would postpone the tax break until there is \$250 million in the state's rainy day fund, contending that the state can't afford the abatement until it is on more solid financial footing.

This study is part of a campaign to head off a move to delay the credit.

"We have tax break after tax break after tax break for businesses and for higher income taxpayers," Marston said. "Fairness dictates that we give those who are struggling the most a

break."

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