

Legislative Analysis



EITC 6-MONTH RESIDENCY REQUIREMENT

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House Bill 4514

Sponsor: Rep. Michael Lahti

Committee: Tax Policy

Complete to 3-17-09

A SUMMARY OF HOUSE BILL 4514 AS INTRODUCED 3-4-09

House Bill 4514 would amend the Income Tax Act to add a 6-month residency requirement (in the tax year) for eligibility for the Earned Income Tax Credit. The bill would apply to taxes imposed after December 31, 2007.

The Michigan EITC is equal to a percentage of the amount of the federal EITC, established in Section 32 of the Internal Revenue Code (26 USC 32). The state EITC is equal to 10 percent of the federal EITC for the 2008 tax year, and 20 percent of the federal EITC beginning with the 2009 tax year.

MCL 206.272

FISCAL IMPACT:

The bill would reduce eligibility for the EITC for an unknown number of filers, and would be expected to increase net income tax revenue by an indeterminate amount.

BACKGROUND INFORMATION:

The Michigan EITC was established with the enactment of Public Act 372 of 2006 (SB 453 of the 2005-06 Legislative Session), as part of a package of legislation increasing the state minimum wage (SB 318, SB 1364, and HB 6213). The 2008 tax year is the first tax year in which the Michigan EITC is available. About half of the states have an EITC that piggybacks on the federal EITC.

Established in 1975, the federal EITC provides a refundable credit to low-income individuals and families to offset the burden of payroll taxes, to provide an incentive to make the transition from welfare to work (by requiring *earned* income), and to supplement earnings. The credit is equal to a percentage of the taxpayer's earned income based on the number of children in the household, up to a certain amount annually adjusted for inflation. The maximum credit for the 2008 tax year is \$438 with no qualifying children, \$2,917 with one qualifying child, and \$4,824 with two qualifying children. Generally speaking, to be eligible for the credit, a taxpayer must have earned income (wages, salaries, tips, etc) within specified limits, and have investment income of not more than \$2,950. If the taxpayer does not have any children, the taxpayer must be between 25 and 65 years of age, and must reside in the U.S. for at least six months. A

"qualifying child" is a taxpayer's son, daughter, stepchild, eligible foster child, brother, sister, half or step sibling, or any descendent of them (i.e. grandchild or niece or nephew) who is less than 19 years of age, less than 24 years of age if a student, or of any age if totally and permanently disabled. A qualifying child must also reside with the taxpayer in the U.S. for more than six months.

In general, the maximum credit is equal to 7.95 percent with no qualifying children, 34 percent with one qualifying child, and 40 percent with two or more qualifying children (up to certain income limits) Above certain income limits the credit begins to phase-out. The table below shows the income limits for the 2008 tax year:

No Qualifying Children	Single	Married
Maximum Credit	\$438	\$438
Minimum Income with Max. Credit	\$5,700	\$5,700
Maximum Income with Max. Credit	\$7,199	\$10,199
Income Where Credit is \$0	\$12,880	\$15,880
1 Qualifying Children	Single	Married
Maximum Credit	\$2,917	\$2,917
Minimum Income with Max. Credit	\$8,550	\$8,550
Maximum Income with Max. Credit	\$15,749	\$18,749
Income Where Credit is \$0	\$33,995	\$36,995
2 or More Qualifying Children	Single	Married
Maximum Credit	\$4,824	\$4,824
Minimum Income with Max. Credit	\$12,050	\$12,050
Maximum Income with Max. Credit	\$15,749	\$18,749
Income Where Credit it \$0	\$38,646	\$41,646

Note: Generally, married taxpayers must file jointly, rather than separately. Source: IRS Publication 596, Earned Income Credit (EIC), Tax Year 2008.

The recently enacted American Recovery and Reinvestment Act, PL 111-5 (HR 1), expands the federal EITC for 2009 and 2010 to create a 45% tax-credit bracket for families with 3 or more qualifying children, and to provide additional relief from the so-called "marriage penalty" by expanding the income range for married taxpayers filing jointly.

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