Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4514 (Substitute H-1 as reported without amendment)
Sponsor: Representative Michael Lahti
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 6-16-09

RATIONALE

Public Act 372 of 2006 amended the Income Tax Act to create the State earned income tax credit (EITC). This allows a Michigan taxpayer to claim a refundable credit for a percentage of the Federal EITC that the taxpayer may claim under the Internal Revenue Code. The percentage is 10% for tax years beginning during 2008, and 20% for tax years beginning after December 31, 2008. The State and Federal credits are available to individuals who have income from employment or self-employment, and whose income does not exceed certain levels. The Internal Revenue Code contains additional eligibility criteria, including a U.S. citizenship requirement and, if a taxpayer does not have a qualifying child, a requirement that the taxpayer be a U.S. resident for more than half the year. It has been suggested that the Income Tax Act also should include a Michigan residency requirement for the State EITC.

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer to claim the earned income tax credit, for a tax year beginning after December 31, 2008, as long as he or she was a resident of the State for at least six months of the same tax year.

MCL 206.272

BACKGROUND

To claim the earned income tax credit under the Internal Revenue Code, for the 2008 tax year, a taxpayer must have earned income and adjusted gross income that are less than the following:

-- $38,646 ($41,646 married filing jointly) with two or more qualifying children.
-- $33,995 ($36,995 married filing jointly) with one qualifying child.
-- $12,880 ($15,880 married filing jointly) with no qualifying children.

The maximum credit for tax year 2008 is as follows:

-- $4,824 with two or more qualifying children.
-- $2,917 with one qualifying child.
-- $438 with no qualifying children.

Investment income must be $2,950 or less for the tax year.

The American Recovery and Reinvestment Act provides a temporary increase in the EITC for tax years 2009 and 2010 by creating an additional bracket for taxpayers with three or more qualifying children, and raising the income level for married couples.

To claim the Federal EITC, a taxpayer must be a U.S. citizen or resident alien all year, or a nonresident alien married to a U.S. citizen or resident alien and filing a joint return. An eligible taxpayer may not be a qualifying child of another person. If a taxpayer does not have a qualifying child, he or she must be at least 25 but under 65 years old at the end of the year; live in the United States for more than half the year; and, not qualify as a dependent of another person. Whether a child is a qualifying child is based on relationship, age, and residency.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The State's earned income tax credit helps working families and individuals in Michigan keep more of their paycheck, rewarding work and supplementing low wages. Since the EITC is refundable, an eligible individual will receive a refund for the amount of the credit that exceeds his or her tax liability. It would make sense to require individuals who benefit from the credit to have lived in Michigan for at least six months of the tax year. The Act already has a six-month residency requirement for the homestead property tax credit, which also is refundable.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce the cost of the earned income tax credit, and therefore increase net income tax revenue, in the range of $2.0 million to $4.0 million beginning in FY 2009-10. This reduction in the cost of the refundable earned income tax credit would benefit the General Fund. The bill would have no impact on local governments.

Fiscal Analyst: Jay Wortley