

**SFA**

BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

(517) 373-5383

## MICHIGAN STATE LAW LIBRARY

Senate Bill 1062 (as passed by the Senate)

Sponsor: Senator Norman D. Shinkle

Committee: Finance

Date Completed: 10-25-90

**RATIONALE**

Under the Internal Revenue Code, an eligible taxpayer can claim what is known as an "earned income credit" on his or her Federal tax return. The credit is designed to lower the Federal tax liability of working taxpayers, with dependent children, who have relatively low incomes.

To be eligible for the earned income credit, a taxpayer must have at least one dependent child and have a filing status of "married, filing jointly" or "head of household"; and have earned income less than an amount determined under the Internal Revenue Code. Earned income includes wages, salaries, tips, self-employment earnings, and in-kind payments. The credit is based upon a percentage of a range of incomes, as reflected in a table prepared by the Internal Revenue Service each year. In tax year 1989, a taxpayer with an earned income of at least \$6,500 but less than \$10,250 could claim the maximum credit of \$910. The credit was reduced as income either fell below \$6,500, or exceeded \$10,250 (to a maximum of \$19,340, at which point the credit could no longer be claimed).

It has been pointed out that the earned income credit, by directing tax relief toward low-income workers, provides an incentive to work for persons currently on public assistance who want and are able to work. When a person on public assistance enters the workforce, he or she likely will experience a loss of monetary aid and medical care benefits, reduction or elimination of food stamps, increased taxes, and expenses for child care, and the credit can ease some of these costs. Four states, Maryland, Rhode Island, Vermont, and Wisconsin, offer a version of the earned income credit against state tax liability,

to benefit further those taxpayers who qualify for the Federal earned income credit. It has been suggested that Michigan also allow eligible taxpayers to claim an earned income credit against the State income tax.

**CONTENT**

The bill would amend the Income Tax Act to allow a taxpayer to claim a refundable credit against State income tax liability equal to 25% of the earned income credit the taxpayer claimed against Federal tax liability in the same year.

To be eligible for the State credit, a taxpayer would have to have been eligible to claim the earned income credit on his or her Federal tax return.

Proposed MCL 206.252

**FISCAL IMPACT**

Senate Bill 1062 would lead to a \$28 million to \$32 million reduction in State income taxes each year. In 1987, Michigan residents claimed \$98 million in Federal low-income tax credits. Allowing for the 25% Michigan credit and for growth between 1987 and 1990, leads to the estimated revenue loss.

**ARGUMENTS****Supporting Argument**

Allowing taxpayers who are eligible to claim the Federal earned income credit to claim a portion of the credit against State income tax liability would assist those persons who have dependent children, work, but have low incomes. The State

S.B. 1062 (10-25-90)

should provide every encouragement it can to help the working poor keep working, and to help public assistance recipients begin working. A parent on assistance faces great difficulty when he or she enters the workforce, because going to work and earning an income will likely result in a loss of public monetary and medical help, while at the same time increasing expenditures for child care and taxes. Persons who argue that high tax rates on high incomes discourage persons from earning more must agree that a substantial tax rate applied to low incomes discourages persons from getting a low-paying job and earning income. The bill would offer an incentive in the form of reduced taxes to parents with low-wage jobs.

Legislative Analyst: G. Towne  
Fiscal Analyst: N. Khouri

A8990S1062A

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.