

Legislative Analysis



REQUIRE EMPLOYERS TO PROVIDE EARNED INCOME TAX CREDIT INFO TO EMPLOYEES

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5296 as introduced
Sponsor: Rep. Rebekah Warren
Committee: Labor

First Analysis (2-5-10)

BRIEF SUMMARY: The bill would require that, not later than January 31 of each year, an employer provide each employee with information about the Earned Income Tax Credit, including general eligibility requirements (to be developed and posted electronically by the Department of Treasury), and instructions for claiming the credit. Employers could do so by including the information with their employees' annual wage summaries, by electronic mail, or by mailing the information to their employees' homes.

FISCAL IMPACT: The bill would impose additional costs on public employers (the state, local governments, school districts, etc) and private employers relative to the cost of printing the required information on the Earned Income Tax Credit and providing it to employees through inclusion with the W-2 or 1099 forms or a separate mailing, and through workplace postings. To the extent the information is provided through a separate mailing, there would be additional postage costs imposed on employers. The individual per-unit printing costs would be a few cents, with the total costs dependent on the number of individuals employed. Whatever costs would be incurred by employers, such increases would be mitigated somewhat to the extent that the required information is provided to employers through email, at the employee's work email address, or through inclusion with the W-2 or 1099 forms.

THE APPARENT PROBLEM:

The federal Earned Income Tax Credit (EITC) was created by the U.S. Congress in 1975 to ease the tax burden on working families and individuals through a refundable tax credit on an individual's federal income tax liability. The EITC increases with income up to a maximum credit amount, then phases out as the taxpayer earns enough income to pass the poverty threshold. See *Background Information*. Michigan enacted a state EITC that piggybacks on the federal credit in 2006, effective for the 2008 tax year and beyond. Simple to figure, the Michigan EITC is equal to 10 percent of the federal credit received for the 2008 tax year and is set at 20 percent for each tax year thereafter. See *Background Information*.

According to committee testimony offered by the Asset Building Policy Project, for the 2007 tax year, 710,185 Michigan filers claimed the federal EITC for a total of more than \$1.4 billion in returns. The average EITC return in Michigan that year was roughly \$1,975 per filer. For the 2009 tax year, the maximum EITC for a single filer with three

or more qualifying children and an annual income of \$43,279, or less (\$48,279 if filing jointly) will be \$5,657.

The Earned Income Tax Credit is designed to decrease poverty by encouraging work, and is often considered one of the most effective programs to help low-wage working families remain economically viable. According to the Council on Budget and Policy Priorities, state EITCs reduce poverty, increase workforce participation among low-income families, and make tax systems fairer.

In its report entitled "Economic Benefits of the Earned Income Tax Credit in Michigan," published on August 13, 2009, the Anderson Economic Group says that for every dollar received in Michigan from the federal Earned Income Tax Credit, \$1.67 is generated in new economic activity for Michigan's local economies. For the 2006 tax year, Michigan residents received \$1.3 billion for the federal EITC which in turn generated \$2.2 billion in new economic activity for the state. The report noted that increasing participation among those eligible for the EITC by one percent would generate an additional \$3.3 million in economic activity. The study also estimated that approximately \$221 million in EITC returns went unclaimed by Michigan residents in 2006.

In previous years, the Michigan Department of Human Services has provided competitive grants to organizations that provide outreach for the EITC. Customarily, these groups offer free tax preparation services to low-income people, and when doing so they calculate their federal and state EITC credits for them. However, in the Department of Human Services Fiscal Year 2009-2010 budget, the \$500,000 set-aside for competitive grants to organizations that provide outreach for the ETIC has been vetoed, due to recent budget shortfalls.

Legislation has been introduced to require employers to alert their employees to the availability of the Earned Income Tax Credit.

THE CONTENT OF THE BILL:

House Bill 5296 would create a new law to be known as the Earned Income Tax Credit Notification Act.

The bill would require that, not later than January 31 of each year, an employer provide each employee with information about the Earned Income Tax Credit, including general eligibility requirements and instructions for claiming the credit. An employer would provide the information by one or more of the following methods:

- By including it with the employee's annual wage summary or with the federal W-2 or 1099 form.
- By electronic mail to the employee's work electronic mail address.
- By mailing it to the employee at the employee's last known home or mailing address.

In addition, an employer would be required to post eligibility information in every workplace, in a location where notices to employees were normally posted.

Under the bill, the Department of Treasury would be required to designate standard eligibility information for use by employers in meeting the requirements of the legislation. The department would post the eligibility information on its internet website in a downloadable format.

The bill defines "employer" to mean an individual or a private, public, or governmental entity doing business in this state that employs five or more individuals for compensation. "Employee" means an individual who is employed by an employer for compensation.

BACKGROUND INFORMATION:

For more information about the federal Earned Income Tax Credit, visit the website of the Internal Revenue Service at:

<http://www.irs.gov/individuals/article/0,,id=96406,00.html>

For more information about the Michigan Earned Income Tax Credit, visit

<http://www.michiganeic.org/>

ARGUMENTS:

For:

The federal Earned Income Tax Credit is designed to decrease poverty by encouraging work, and is often considered one of the most effective programs to help low-wage working families remain economically viable. According to the Council on Budget and Policy Priorities, state EITCs reduce poverty, increase workforce participation among low-income families, and make tax systems fairer. This bill, then, promotes effective and efficient public policy.

Proponents of this bill note that employers can provide support to their workers by linking them to organizational and community services and public benefits. They argue that employers have a critical role in providing information and resources to their employees, and that doing so can have a positive impact on the relationship between employers and those who work for them. This bill will, then, enable employers and employees to improve their working relationships.

This bill will also ensure that more low and moderate wage workers who are eligible for the Earned Income Tax Credit are made aware of this valuable tax credit. Michigan economists have estimated that approximately \$221 million in EITC returns went unclaimed by Michigan residents in 2006 because low income workers did not know they were eligible for the tax credit. Had it been claimed, that \$221 million would have been spent on household necessities, and helped the economies of local communities.

Finally, proponents note that in the 2007 tax year the federal Earned Income Tax Credit provided 710,185 Michigan low wage earners with a return of \$1,975, on average. According to economists with the Anderson Economic Group, for every dollar received in Michigan from the federal Earned Income Tax Credit, \$1.67 is generated in new economic activity for Michigan's local economies. For example, for the 2006 tax year, Michigan residents received \$1.3 billion for the federal EITC which in turn generated \$2.2 billion in new economic activity for the state. The economists say that increasing participation among those eligible for the EITC by one percent would generate an additional \$3.3 million in economic activity.

Against:

Opponents of the bill argue that the cost of providing information about the federal and state Earned Income Tax Credits to low wage workers is too high, and is most especially not affordable during the economic downturn in Michigan.

Some opponents also note that the bill would force certain behavior from employers, and in doing so it serves as an example of government intervening too intrusively in business affairs.

Response:

Proponents respond that the legislation provides for several low-cost and free options for employers so that critical information is given to the lowest wage earners in their workforce via the employee's wage summary, by email, or mailed to their last known address. What's more, free information is available on the Internet. For example, PHI of Michigan--a nonprofit working to improve the lives of people who need long-term care services--has worked directly with 13 long-term care employers across Michigan, and provided them with paycheck stuffers, posters, and brochures to give their staff. This way, 2,200 direct-care workers learned about the Earned Income Tax Credit, and free tax filing services. To further their outreach, PHI-Michigan has set-up a website--<http://www.phinational.org/taxes>--so that other employers can download their materials, and distribute them to their own employees. In its first month of operation, the website received 700 hits, 200 of which were downloads, indicated that other employers would distribute EITC information and materials at little to no cost.

POSITIONS:

The Department of Energy, Labor, and Economic Growth supports the bill. (12-9-09)

The Michigan Association of United Ways supports the bill. (12-9-09)

The United Way of Southeastern Michigan supports the bill. (12-9-09)

The American Association of Retired People supports the bill. (12-9-09)

The Community Economic Development Association of Michigan (CEDAM) supports the bill. (12-9-09)

Peckham, Incorporated supports the bill. (12-9-09)

PHI National supports the bill. (12-9-09)

Residential Opportunities, Inc. supports the bill. (12-9-09)

The Metropolitan Detroit AFL-CIO supports the bill. (12-0-09)

The Michigan League for Human Services supports the bill. (12-9-09)

The Small Business Association of Michigan opposes the bill. (12-9-09)

The Michigan Manufacturers Association opposes the bill. (12-9-09)

The National Federation of Independent Businesses opposes the bill. (12-9-09)

Legislative Analyst: J. Hunault
Fiscal Analyst: Mark Wolf

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.