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BILL ANALYSIS

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House Bill 4514 (Substitute H-1 as passed by the House)
Sponsor: Representative Michael Lahti
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 6-3-09

CONTENT

The bill would amend the Income Tax Act to establish a six-month State residency requirement for a taxpayer to claim the State earned income tax credit (EITC) for tax years beginning after December 31, 2008.

Public Act 372 of 2006 amended the Act to allow a taxpayer to claim an income tax credit equal to a percentage of the credit he or she may claim for a tax year under Section 32 of the Internal Revenue Code (which permits eligible individuals to claim a refundable Federal income tax credit). The percentage that a taxpayer may claim is 10% for tax years beginning during 2008, and 20% for tax years beginning after December 31, 2008.

Under the bill, for a tax year beginning after December 31, 2008, a taxpayer could claim this credit 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

The earned income tax credit under Section 32 of the Internal Revenue Code is available to individuals who have income from employment or self-employment, and whose income does not exceed certain levels. For the 2008 tax year, earned income and adjusted gross income must be 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.

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