



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 4514 (Substitute S-3 as passed by the Senate)

Sponsor: Representative Michael Lahti

House Committee: Tax Policy

Senate Committee: Finance

Date Completed: 10-13-09

CONTENT

The bill would amend the Income Tax Act to do the following:

- **Retain the State earned income tax credit (EITC) at 10% of the Federal EITC for the 2009 tax year.**
- **Phase in an increase in the State EITC, bringing it to 20% of the Federal EITC for tax years after 2012.**
- **Limit the State EITC to taxpayers who were residents of Michigan for at least six months, for the 2009 and subsequent tax years.**

The Act allows an eligible taxpayer to claim a refundable credit for a percentage of the Federal EITC that the taxpayer may claim under the Internal Revenue Code (referred to as the State EITC). The percentage is 10% for tax years beginning during 2008, and 20% for tax years for tax years beginning after December 31, 2008.

The bill would retain the State EITC at 10% of the Federal EITC for tax years beginning during 2009, and would increase the percentage as follows:

- For tax years beginning in 2010: 12.5%.
- For tax years beginning in 2011: 15%.
- For tax years beginning in 2012: 17.5%.
- For tax years beginning after 2012: 20%.

In addition, for the 2009 tax year and each subsequent tax year, to be eligible to claim the State EITC, a taxpayer would have to have been a resident of Michigan for at least six months of the tax year for which the credit was sought.

The bill is tie-barred to Senate Bills 838 and 884. (Senate Bill 838 (S-1) would amend the Michigan Business Tax (MBT) Act to require \$100.0 million of the revenue collected under the Act to be distributed to the School Aid Fund in fiscal year 2009-10; phase out the MBT surcharge, eliminating it for tax years after 2011; reduce the credit for film production expenditures; increase the credit allowed for investment in film and media infrastructure projects; increase the income limits of taxpayers eligible for the small business credit; extend the entrepreneurial credit to the 2011, 2012, and 2013 tax years, and reduce the number of new jobs and capital investment a taxpayer must make in order to claim that credit; and reduce the total amount of certain brownfield credits. Senate Bill

884 would amend the revenue Act to create a 30- to 60-day amnesty period for taxes due before June 2, 2008.)

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.

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.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would increase State General Fund tax revenue by approximately \$169.3 million in FY 2009-10 and \$135.2 million in FY 2010-11. Additional increases would be realized through FY 2012-13, when the credit would be fully phased-in to the level specified under current law. The bill would have no effect on local revenue or expenditure.

Fiscal Analyst: David Zin

S0910\4514sb

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.