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Earned Income Tax Credit helps build self-sufficiency

Michigan's Earned Income Tax Credit (EITC) is critical in helping lift the working poor out of poverty. A recent study by Michigan State University researchers confirms that, unlike straight-out cash welfare disbursements, tax credits "fuel dreams of a better life" and bolster "recipients' self-respect by emphasizing their role as working parents and providers."

Unfortunately, Michigan's EITC was severely reduced during 2011 state budget cuts. The result was a serious setback for thousands of low-income families struggling to become economically independent.

Michigan's EITC complements a federal program that gives poor, working families tax refunds when they file their tax returns. Nationally, the average federal tax credit for a family with children is nearly \$3,000, which approaches 20 percent of that family's annual income. Michigan's current EITC rate of six percent of the federal credit amounts to about \$180. At the former 20 percent rate of the federal credit, that same family would get a \$600 tax refund.

The MSU study clearly distinguishes EITC from welfare. Those eligible for EITC are the working poor – people with jobs, but whose paychecks are insufficient to make ends meet. The study, reported in the April issue of *American Sociological Review*, is based on in-depth interviews with more than 100 EITC

recipients. The study reveals that 25 percent of the tax refunds went to pay off debt or bills; 17 percent went into savings; and about 40 percent went to funding “upward mobility” goals such as schooling.

Those are encouraging signs that taxpayers want to see. It’s about climbing out of poverty, not being stuck in poverty. The study’s lead author, Jennifer Sykes, noted in a recent article in MSU Today: “Millions of low-income, working-class folks in America are making ends meet by living in the red. They are working, but they are not earning a livable wage. The EITC is a powerful force in the lives of these families.”

About half the states in the U.S. have a version of the EITC to supplement the federal tax credit program. Some of those states, including Michigan, have scaled back their EITC programs.

On May 5, Michigan voters have an opportunity to restore the EITC. Proposal 1 mainly deals with funding to restore Michigan roads. This bipartisan-crafted amendment to the state constitution also provides a much-needed boost to the EITC. It’s a tax credit program for working families – people for whom the American Dream still burns bright. They yearn for economic independence and a path out of poverty. Michigan’s EITC program is an important step along that path.

Founded in 1975, Michigan Community Action serves its 29 member agencies throughout Michigan by strengthening their capacity to alleviate the causes and circumstances of poverty in all 83 counties.