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MCA says look elsewhere than EITC to fill road funding gap

A proven policy for helping lift the working poor out of poverty, Michigan's Earned Income Tax Credit (EITC), shouldn't be sacrificed to help fill road funding gaps, says Michigan Community Action (MCA), the statewide advocacy association focused on poverty issues.

"Helping people who are most likely to be able to get over the hurdles of poverty is a good investment," Kate White, MCA executive director explains. "Michigan's EITC program is an important boost along over such barriers and one that shouldn't be sacrificed to road funding or other budget shortfalls."

The EITC complements a federal program that gives poor, working families tax credits when they file their tax returns. Nationally, the average federal tax credit for a family with children is about \$2,400. Michigan's current EITC rate of six percent of the federal credit amounts to about \$180. Michigan's EITC was severely reduced by the Legislature in 2011. The result was a serious setback for thousands of low-wage earning families. At the former 20 percent rate of the federal credit, that same family would get a \$480 tax credit.

A recent study by Michigan State University researchers clearly distinguishes EITC from public assistance. Those eligible for EITC are the *working* poor – people with jobs, but whose paychecks are inadequate to support their families. The study, which was reported in the April issue of *American Sociological Review* and based on interviews with more than 100 EITC taxpayers, revealed that 25 percent of the tax credits 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. The findings confirm that tax credits for people in this tax bracket “bolster recipients’ self-respect by emphasizing their role as working parents and providers.”

“Millions of low-income, working-class folks in America are making ends meet by living in the red,” explains Jennifer Sykes, the study’s lead author, in a recent article in *MSU Today*. “They are working, but they are not earning a livable wage. The EITC is a powerful force in the lives of these families.”

“Families who become self-sufficient are likely to stop a cycle of poverty that often continues from one generation to another,” White notes. “In working families, the American Dream still burns bright. Those Michiganders are constantly seeking a path to economic independence. The EITC is a powerful force in the local economy, as well, as nearly all money generated by the credit gets spent in the local community.”

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, like Michigan, have also scaled back their EITC programs.

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.