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Protect the Michigan Earned Income Tax Credit for the poor

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The Michigan Earned Income Tax Credit has come under fire from both the governor and the Legislature. Proposals include temporarily halting or rolling back full implementation of this tax credit to provide short-term funding support for other state programs.

The recession and the muted future outlook of Michigan's economy should cause Gov. Jennifer Granholm and state legislators to abandon these ideas. Michigan's working poor need their promised tax relief today.

Three years ago, the Legislature overwhelmingly passed with bipartisan support the creation of a state earned income tax credit. Low-income workers received the tax break because, according to a report from the widely respected Anderson Economic Group, they are responsible for payroll taxes up to seven times higher than high-income earners.

Michigan's earned income tax credit allows eligible workers to claim 10 percent of the existing federal credit on last year's state taxes and then an additional 10 percent this tax year, making the state EITC worth a total of 20 percent. Elected officials in both parties are foaming over the second 10 percent tax credit to help solve their budget woes.

While the move might save the Legislature money on its ledgers, it wouldn't pay off for Michigan in the long run. President Ronald Reagan labeled the credit "the best anti-poverty, the best pro-family" tax relief measure to have come out of Congress. It encourages work and self-sufficiency and has lifted a substantial number of children out of poverty. No wonder, according to the Center on Budget and Policy Priorities, 24 states have a state EITC that piggy-backs on the federal credit.

The tax credit also benefits local communities because returns are spent close to home.

"The EITC increases economic activity in the local economy in two ways: directly, as money is spent on goods and services in the county; and indirectly as money is re-spent in the county, creating a 'multiplier effect,' " according to a June Anderson Economic Group study. Other research has shown that recipients typically allocate their refunds toward overdue bills, small electronics, furniture and car repair or purchases that help stimulate the economy.

Michigan's 83 counties stand to benefit collectively next year to the tune of an estimated $280 million with a fully implemented 20 percent state tax credit, according to Internal Revenue Service data. The average individual filer can expect a return of about $395. In addition, Wayne County would benefit from an estimated $84 million boost to its local economy; Oakland County $20 million; and Macomb County $18 million.

It may be tempting for Granholm to propose scaling back for the time being full implementation of the tax credit to fund the now-defunct Michigan Promise scholarships, a program for which any student, regardless of need, can qualify. The Republican-controlled state Senate has approved a bill that would temporarily halt full implementation of the credit to pay for other state education programs.

Needs-based tuition assistance and adequate education dollars certainly deserve proper funding. But are students from well-off families and communities in greater need of limited state dollars than working poor families living paycheck to paycheck? The obvious disconnect only becomes logical when politics enters the equation.

It is critical for Republicans and Democrats to support the working poor by achieving a 20 percent state earned income tax credit. State policy that grants preferential options to the poor and vulnerable must be given priority over partisan political maneuvering and Band-Aid approaches to the state's budgeting problem.

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