

# LEGISLATIVE SNAPSHOT

## EARNED INCOME TAX CREDIT

**Date:** January 2024

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### Summary

Earned Income Tax Credits (EITCs) are a common feature across federal and state income taxes to provide assistance to low- and moderate-income families. The credits are generally refundable and are based on the taxpayer's adjusted gross income (AGI) and the number of qualifying dependent children claimed on the tax return. This legislative session, [2023 PA 4](#) increased the credit beginning in the 2023 tax year and provided for an additional one-time credit for the 2022 tax year.

### Background

The federal EITC was initially created in 1975 and is primarily focused on providing financial assistance to working families with children. While childless taxpayers are eligible to claim the credit, it is significantly smaller than that available to taxpayers with qualifying dependents. (The American Rescue Plan Act of 2021 significantly expanded the credit for childless workers for the 2021 tax year, among other changes, but this expansion was not extended to future years.)

The federal credit is structured to phase in as income increases until the maximum credit amount is reached. After a certain income threshold, the credit then gradually phases out until it reaches \$0 for those above the maximum income eligibility. The Tax Policy Center provides a more detailed [overview](#) of this phase-in and phase-out structure using the 2021 guidelines.

The [Michigan EITC](#) was originally created in the Income Tax Act by [2006 PA 372](#). The credit was refundable and worth 10% of the federal credit for the 2008 tax year and 20% of the federal credit for tax years beginning after 2008. Subsequently, [2011 PA 38](#), which made significant changes to the individual income tax, reduced the state credit to 6% of the federal EITC beginning in the 2012 tax year.

### Public Act 4 of 2023

2023 PA 4 amended the Income Tax Act to increase the state EITC cap to 30% of the federal credit, beginning in the 2023 tax year. The bill also provided for an additional one-time credit equal to 24% of the taxpayer's federal EITC for the 2022 tax year. The additional credit to which each taxpayer is entitled will be calculated by the Department of Treasury and refunded as soon as practical.

Since the bill was not granted immediate effect, its changes will take effect on February 13, 2024 (the 91st day after the adjournment of the 2023 regular session).

### Other States

According to the National Conference of State Legislatures (NCSL), 33 other states have created their own EITCs. Like Michigan, the majority of these states calculate their credit as a percentage of the federal credit. Others offer a set credit amount for eligible taxpayers, although in some states this amount can vary based on specific criteria. The NCSL maintains an [overview](#) of EITCs available at the state level.

### Additional Resources

- Congressional Research Service, [The "Childless" EITC: Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021](#)
- Internal Revenue Service, [Earned Income and Earned Income Tax Credit \(EITC\) Tables](#)
- Internal Revenue Service, [Who Qualifies for the Earned Income Tax Credit](#)
- Center on Budget and Policy Priorities, [Policy Basics: The Earned Income Tax Credit](#)