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Study: Tax credit efficient use of dollars

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LANSING – Federal and state government payments to the working poor in the form of the Earned Income Tax Credit are one of the most efficient uses of tax dollars occurring today, and funnel money back into communities in addition to relieving poverty, according to a study released by advocates of the program this morning at the state Capitol.

The report by the Anderson Economic Group comes as Gov. Jennifer Granholm and the Legislature are considering a 2010 state budget that could include cutbacks in the Michigan EITC.

About 677,000 low wage earners in Michigan received more than \$1 billion in federal payments in 2006, the report found, an average of about \$1,900 per household.

But as many as 20% of eligible households didn't apply for the tax credits, missing out on about \$365 million in additional payments, the report said.

Almost all of that money is spent directly on goods and services by recipients, creating significant business activity locally and statewide, said Anderson Group President Patrick Anderson.

The report was commissioned by Michigan United Ways and the state's community economic development associations.

Anderson said neither the researchers nor the sponsoring groups were taking a position on the state's budget priorities, or suggesting that taxes in other areas should be increased to pay for the state's EITC. But it is important to recognize that tax credits for the poor are among the most efficient government programs imaginable, he said, requiring virtually no bureaucracy, relieving burdens on other social programs and private charities, while providing an incentive to work.

The EITC provides income tax credits (mostly to households with income below \$25,000 a year) that in most cases exceed a taxpayer's income tax liability. The Anderson Group report said Michigan residents qualified for about \$1.3 billion in credits in 2006, about 90% of which was in the form of cash payments. The state program, initiated only two years ago, will be an additional 20% of the federal credit in 2010 if it is not scaled back in budget negotiations.

Anderson said EITC payments generally provide low wage workers with subsidies about equal to what they and their employers pay in social security and Medicare taxes.

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