



DATE: February 2017
TO: Friends and Colleagues
FROM: Gilda Z. Jacobs, President and CEO
SUBJECT: ***Money Back in Michigan***

The Michigan League for Public Policy is pleased to send you the tax year 2016 edition of **Money Back in Michigan**, an outreach effort that promotes awareness of various federal and state tax credits and deductions available to low- and moderate-income households. This packet is designed to assist organizations that serve low-income individuals and families by providing timely information about credits for which they may qualify. It includes fliers that can be distributed or displayed in local offices, libraries, community centers and retail businesses.

As with past years, the largest credit that most low-income families will be able to claim (and that service agencies should be sure to publicize with their clients) is the federal Earned Income Tax Credit. This tax credit rewards work and helps lift families out of poverty. For tax year 2016, a two-parent family with two children can receive up to \$5,572 (depending on income level) as a refundable credit.

Tax year 2016 is the ninth year that the Michigan Earned Income Tax Credit will be available to low- and moderate-income working families who qualify for the federal credit. Eligible filers will be able to claim the equivalent of 6% of their federal credit on their 2016 Michigan tax return. The Michigan EITC was 20% of the federal EITC until 2011, when it was cut.

The federal Child Tax Credit continues to be available to families who earn at least \$3,000 and have at least one child. Families with child care expenses are able to have some of that cost offset by the federal Child and Dependent Care Credit. There are other smaller credits available on both state and federal taxes that are described in this packet as well.

All of these tax credits make a huge difference in the well-being of thousands of Michigan workers, but only if tax filers and preparers know about them. **The League urges you to share this information with your clients and with those in your community who work with low-income individuals and families.**

Color copies are available at <http://www.mlpp.org/our-work/taxes-and-revenue/money-back-in-michigan>.

The League also strongly encourages the promotion of Volunteer Income Tax Assistance (VITA) to ensure that low-income filers get their entire tax refund. Information about VITA can be found at www.MichiganFreeTaxHelp.org.

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Money
Back in
Michigan

Returning tax dollars to low-income
Michigan households

Tax Year

2016

Money Back in Michigan

— SAMPLE NEWSLETTER ARTICLE —

FEDERAL AND STATE TAX CREDITS CAN RETURN DOLLARS TO LOW-INCOME MICHIGAN HOUSEHOLDS

Low-income taxpayers can benefit from a variety of federal and state tax credits, all of which can help to reduce taxes owed or provide refunds to the taxpayer. These credits can significantly increase the financial resources available to low-income households—many of whom struggle to make ends meet.

The federal tax credits include the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), the Child and Dependent Care Credit and the American Opportunity Tax Credit. Michigan tax credits include the state Earned Income Tax Credit, the Home Heating Credit and the Michigan Homestead Property Credit. Some of these credits are available to individuals who are exempt from filing requirements. In addition, some credits are retroactive and can be claimed after the income tax filing deadline of April 18th.

The assistance provided through these tax credits can make a difference in the lives of low-income families. Low-income tax filers should not use expensive rapid-refund services that diminish the size of their refund. Free and ethical taxpayer assistance is available in most communities.

Taxpayers who receive the federal EITC or the refundable component of the CTC should note that starting this year, the IRS will not issue refunds until February 15th. No one can get you your refund faster, and do not be taken advantage of by organizations promising quicker refunds or offering checks or loans in anticipation of your refund.

The Michigan Economic Impact Coalition has established a website, www.michiganfreetaxhelp.org, to help tax filers find out more about the federal Earned Income Tax Credit and whether they qualify. Filers and volunteers can also find out about free Volunteer Income Tax Preparation (VITA) sites in their communities by going to the website or by calling 2-1-1.

Money Back in Michigan

— SAMPLE NEWSLETTER ARTICLE —

LOW-INCOME FAMILIES CAN GET RELIEF WITH HOME HEATING EXPENSES

Michigan families and individuals face high home heating expenses every winter. These costs especially harm low-income working families who may be forced to forgo other necessities in order to pay their monthly heat bills. Many of these families have young children who are particularly impacted by the financial strain arising from monthly energy costs.

To help offset some of these expenses, the state provides a Home Heating Credit to Michigan residents. Homeowners and renters can receive the credit even if they do not owe any Michigan income tax and do not file an income tax form for 2016. (The form used to claim the credit, Form MI-1040CR-7, is separate from the Michigan income tax form.)

Residents who pay their heating bills themselves get the credit in the form of an energy voucher, which must then be sent to their heat provider. Renters who have heat included in the rent receive a check for half of their credit amount, while recipients of the Family Independence Program have their credit sent directly to the heat provider.

Unlike most tax credits, which need to be claimed on tax forms filed before April 18th, the Home Heating Credit can be filed as late as September 30, 2017. Filers can also find out where to receive assistance at www.michiganfreetaxhelp.org or by calling 2-1-1.

S T O P

DON'T PAY to have
your taxes done!



DON'T PAY for
“rapid refunds”!

**DON'T
PUT**
your
refund in
some-
one
else's
pocket!

Keep All of Your Money

If you expect a large Earned Income Tax Credit or other refund, then paying hundreds of dollars for a quick refund may not seem like a lot of money. However, it is **YOUR** money and you have other choices:

- 1) Fill out paper forms yourself. You can get these for free from the post office, libraries and other locations, or call **1-800-TAX-FORM**.
- 2) Find out where you can go for free tax help by going to **www.michiganfreetaxhelp.org** or calling **2-1-1**.

The Federal and State Earned Income Tax Credits (EITC) Tax Year 2016 Fact Sheet

WHAT ARE THE EARNED INCOME TAX CREDITS?

- They are tax breaks for working families and individuals.
- They are part of the federal and state tax codes.
- They are designed to reduce the taxes paid by struggling families and supplement the wages of low- and moderate-income workers.
- They help low- and moderate-income workers support their families, encourage a higher participation in the workforce, and reward individuals who find employment.

WHO CAN CLAIM THE EITC?

- Single or married people who worked at some point in 2016, self-employed workers, cash assistance recipients with earned income and legal immigrants can all qualify for the EITC, depending on their income.
- Workers whose earnings are too small to have paid federal taxes can still get money back because the EITC is a refundable tax credit. Receiving the tax credit is contingent upon filing a tax form.
- Individuals who file as single, head of household or married filing jointly may receive the EITC. It is not available to taxpayers who file as married filing separately.
- Workers with investment income exceeding \$3,400 in 2016 may not claim the EITC.
- Filers without qualifying children must be age 25-64 to be eligible.

HOW CAN WORKERS CLAIM THE CREDITS?

- Married workers must file a joint return to get the EITCs.
- To get the federal EITC, workers raising children in 2016 must file either Form 1040 or 1040A and must fill out and attach Schedule EIC. Workers not raising children in 2016 can file any tax form including the 1040EZ.
- To get the state EITC, workers simply need to enter the amount of their federal EITC from their federal tax form onto line 27a of their Michigan tax form, and then multiply that number by .06 (6%) and put it on line 27b.
- Workers can claim the federal EITC for the previous three tax years as well as the current year.

WHICH CHILDREN CAN BE COUNTED FOR EITC PURPOSES?

- Qualifying children must be under age 19, under age 24 if they are full-time students, or any age if they are totally or permanently disabled. They must be younger than the person claiming the child unless totally and permanently disabled.
- Sons, daughters, stepchildren, grandchildren and adopted children are all considered qualifying children as long as they lived with the taxpayer for more than half the year.
- In some cases, brothers, sisters, stepbrothers and step-sisters who live with the filer for more than half the year may be counted if they are not counted on anyone else's return.

HOW MUCH CAN A WORKER GET BACK?

	Raising One Child		Raising Two Children		Raising Three or More Children		Not Raising Children (must be age 25-64)	
	Single	Married	Single	Married	Single	Married	Single	Married
Workers with maximum earnings up to:	\$39,296	\$44,846	\$44,648	\$50,198	\$47,955	\$53,505	\$14,880	\$20,430
Can get a federal EITC up to:	\$3,373		\$5,572		\$6,269		\$506	
Can get a state EITC up to:	\$202		\$334		\$376		\$30	
For a total EITC amount up to:	\$3,575		\$5,906		\$6,645		\$536	

- Nieces, nephews or foster children placed by an agency are considered qualifying children if they lived with the taxpayer in the U.S. more than half the year, were cared for as if they were members of the family and are not claimed on another person's tax return.
- A valid Social Security number is required for each qualifying child.

WHAT ABOUT ERRORS IN CLAIMING THE EITC?

- To reduce EITC error and fraud rates, the IRS verifies the Social Security numbers for all parents and children claiming the EITC.
- If a worker claims the EITC and the IRS finds out that taxes are owed, the filer must pay whatever is owed. However: 1) the EITC may be enough to cover the taxes owed; 2) the IRS is usually willing to work out payment plans for back taxes; and 3) the filer may be able to make an "offer in compromise" that is less than the tax bill.
- Most EITC errors occur because two separated parents are claiming the same child for the same period of time, or because of the low training level of many commercial tax preparers. The highest-trained preparers are Volunteer Income Tax Assistance (VITA) preparers, who are trained directly by the IRS.

HOW CAN EITC REFUNDS BE USED TO BUILD SAVINGS?

- Filers can use direct deposit to split a part of their federal refund into a bank account or IRA. To do this, file Form 8888 with the tax return.

DOES THE EITC AFFECT PUBLIC ASSISTANCE BENEFITS?

Generally, no. The EITC is not counted as income when determining eligibility for Family Independence Program (FIP) cash assistance, Medicaid, food assistance, Supplemental Security Income or federally assisted housing programs. For certain programs, there may be specified deadlines by which the benefit must be spent.

ADDITIONAL TIPS

1. Taxpayers who receive the federal EITC should note that the IRS will not issue refunds until February 15th.
2. Do not use rapid refunds offered by commercial tax preparers. They are high-interest loans that reduce the amount of money going into the pockets of hardworking taxpayers.
3. VITA (Volunteer Income Tax Assistance) sites exist to help people fill out their tax forms for free. To find the nearest VITA site, go to www.michiganfreetaxhelp.org or call 2-1-1.
4. Families who qualify for the EITC may also be able to receive other tax credits, such as the Michigan Homestead Property Credit, the Federal Child and Dependent Care Credit, the Michigan Home Heating Credit and the federal Child Tax Credit.



Federal Earned Income Tax Credit

(Tax Year 2016)

WHAT IS IT?

The federal Earned Income Tax Credit (EITC) is designed to supplement wages and reduce the tax burden on low- and moderate-income workers. During 2016, approximately 788,000 working families in Michigan claimed a total of more than \$2 billion for tax year 2015 and prior years, for an average credit of \$2,488.

WHO QUALIFIES?

The federal EITC is available to low- and moderate-income married or single workers (with or without children) who meet the income requirements. Workers may qualify if they worked full or part time in 2016. **A qualifying child is a child who was under age 19 at the end of 2016, or under age 24 if a full-time student, or any age if totally and permanently disabled.** (This is different from the qualifying rules of the federal Child Tax Credit.)

HOW DOES IT WORK?

Depending on eligibility and income level, workers eligible for the federal EITC either get money back or pay less in taxes:

- Eligible workers raising one qualifying child in the home with adjusted gross income of less than \$39,296 (single) or \$44,846 (married) in 2016 can get an EITC of up to \$3,373.
- Eligible workers raising two qualifying children in the home with adjusted gross income of less than \$44,648 (single) or \$50,198 (married) in 2016 can get an EITC of up to \$5,572.
- Eligible workers raising three or more qualifying children in the home with adjusted gross income of less than \$47,955 (single) or \$53,505 (married) in 2016 can get an EITC of up to \$6,269.

- Eligible workers who were not raising children in their home, but who were at least age 25 and under age 65 on December 31, 2016, and had an adjusted gross income of less than \$14,880 (single) or \$20,430 (married) can get an EITC of up to \$506.

HOW DO FILERS CLAIM THE CREDIT?

- Workers who raised children in 2016 must file Form 1040 or 1040A (not Form 1040EZ) and must fill out and attach Schedule EIC. Married workers must file a joint return to get the EITC.
- A Social Security number must be provided for every person listed on the tax return and Schedule EIC.
- Workers who did not raise children in 2016 can file any tax form, including Form 1040EZ and do not need to file Schedule EIC—they write the dollar amount of their credit on the Earned Income Credit line on their tax form.

Note: The federal EITC does not count as income in determining eligibility for Family Independence Program (FIP) cash assistance, food assistance, Medicaid, Supplemental Security Income or public housing.

SAVE MONEY!

You can find out where to get free tax help at:
www.michiganfreetaxhelp.org.



Federal Child Tax Credit

(Tax Year 2016)

WHAT IS IT?

The **federal Child Tax Credit (CTC)** is for taxpayers raising dependent children under age 17. Families can get a credit of up to \$1,000 for each child. The CTC is partially refundable, meaning that families whose tax liability equals less than \$1,000 per child can receive part or all of the difference as a refund.

WHO IS A “QUALIFYING CHILD” FOR THE CTC?

- Sons, daughters, stepchildren, grandchildren and adopted children.
- Brothers, sisters, stepbrothers or stepsisters—as well as descendants of such relatives.
- Foster children who are placed with the filer by an authorized government or private placement agency.
- A child claimed for the CTC must be under age 17 at the end of 2016.
- The child must live with the filer for more than half of the year in the U.S. and must be either a citizen or a legal resident. The child must have either a valid Social Security number or an Individual Taxpayer Identification Number.

The definition of “qualifying child” for the CTC differs in two important ways from the definition for the EITC:

- A child may not be claimed for the CTC if the child provides over one-half of his or her own support; the worker must claim the dependent exemption for the child.
- Noncustodial parents allowed to claim a child as a dependent by a divorce or separation agreement are entitled to claim the child for the CTC.

HOW DOES IT WORK?

- Taxpayers must have taxable earned income over \$3,000 in 2016 to qualify for a refund. Filers first apply a Child Tax Credit of \$1,000 per child to reduce or eliminate their tax liability. Families who still have CTC remaining after their tax liability has been eliminated may receive a refund in the lesser of two amounts: 1) the amount of CTC that remains, or 2) 15% of the family’s earned income over \$3,000.
- Filers with children who receive the Earned Income Tax Credit, and who owe income tax, may also receive the CTC. The Child Tax Credit will not reduce benefits from the EITC.

HOW DO FILERS CLAIM THE CREDIT?

- To claim the credit, workers must file Form 1040 or 1040A. Workers claiming the Child Tax Credit cannot use the 1040EZ.
- Filers should complete the CTC worksheet included in the tax form. If, after the completion of the worksheet, the filer has eliminated his/her income tax, or if the filer has three or more children, the filer should complete Schedule 8812 for the Additional Child Tax Credit.

SAVE MONEY!

You can find out where to get free tax help at www.michiganfreetaxhelp.org.



Federal Child & Dependent Care Credit

(Tax Year 2016)

WHAT IS IT?

The **Child and Dependent Care Credit** is a nonrefundable federal tax credit designed to assist families with the cost of care for children or other dependent relatives.

WHO QUALIFIES?

Families can claim this credit if:

- They paid for care in 2016 for a child under 13 or a disabled adult; **and**
- They needed the child or dependent care to work or look for work; **and**
- They paid over half the cost of keeping up their home (rent, food, etc.); **and**
- They paid less for dependent care than their 2016 income.

HOW DOES IT WORK?

Families can claim only a limited amount of their care expenses. Eligible families will receive a credit worth between 20% and 35% of these expenses, depending upon income.

- Families with one child or dependent can claim up to \$3,000.
- Families with more than one child or dependent can claim up to \$6,000.
- The credit will reduce the amount of taxes owed.

Note: Families earning too little to pay federal income taxes cannot use this credit.

HOW DO FILERS CLAIM THE CREDIT?

In order to receive the tax credit, filers must use federal Form 2441 and attach it to the federal Form 1040 or 1040A (Schedule 2). Filers must identify each qualifying child and provide the Social Security number.

SAVE MONEY!

You can find out where to get free tax help at www.michiganfreetaxhelp.org.



Federal American Opportunity Tax Credit

(Tax Year 2016)

WHAT IS IT?

The **American Opportunity Tax Credit (AOTC)**, first enacted for tax year 2009 and made permanent in 2015, expands the previous Hope Credit by being partly refundable—up to \$1,000 of the AOTC may be claimed even if the individual earns too little to owe income tax. The AOTC can make education more affordable for many more low-income families and students who might not otherwise be able to attend college.

WHO QUALIFIES?

The AOTC is available to students who are in their first four years of college (the Hope Credit covered only the first two years) and are pursuing an undergraduate degree. Filers may be eligible for the AOTC if they:

- Paid for “qualified educational expenses” for themselves, their spouse or their dependents at an “eligible educational institution,” **and**
- Have adjusted gross income in 2016 less than \$80,000; \$160,000 if married (these limits are higher than under the Hope Credit rules). The amount of the AOTC phases out at income levels above this.

HOW DOES IT WORK?

Filers can claim up to \$2,500. The AOTC is figured by taking the first \$2,000 paid towards the student’s qualified educational expenses and adding 25% of the next \$2,000 in educational expenses, up to \$2,500. The AOTC provides a

refundable credit worth 40% of this total, up to \$1,000. If no income tax is owed, the filer still qualifies for an AOTC up to \$1,000. If tax is owed, the balance of the credit is used to reduce the filer’s tax liability.

Qualified educational expenses include:

- Tuition (after the subtraction of tax-free contributions, such as scholarships, fellowships, Pell Grants, employer assistance and veterans assistance).
- Course-related materials, whether or not they are purchased from the educational institution.

The following are not qualifying expenses: insurance, medical expenses, room and board, transportation, other living or family expenses and child care.

HOW DO FILERS CLAIM THE CREDIT?

Filers must use IRS Form 8863 to claim the credit. It must be attached to the tax return. Filers cannot use 1040EZ if they are claiming this credit. Students can use their Form 1098-T to help them calculate their credits.

SAVE MONEY!

You can find out where to get free tax help at www.michiganfreetaxhelp.org.



Michigan Earned Income Tax Credit

(Tax Year 2016)

WHAT IS IT?

The **Michigan Earned Income Tax Credit (Michigan EITC)**, like the federal EITC, is designed to supplement wages and reduce the taxes paid by low- and moderate-income workers. Tax year 2016 is the ninth year in which it will be in effect. The state EITC for tax year 2016 is 6% of the federal EITC.

WHO QUALIFIES?

All workers who are eligible for the federal EITC are categorically eligible for the state EITC.

HOW DO FILERS CLAIM THE CREDIT?

Filers must do their federal taxes first. A filer's completed federal tax form will indicate the amount of federal EITC for which he or she is eligible. The filer then simply writes that

federal EITC amount on Line 27a of Form MI-1040. The filer then multiplies that amount by .06 (6%) and enters that amount on Line 27b.

SAVE MONEY!

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Michigan Homestead Property Tax Credit

(Tax Year 2016)

WHAT IS IT?

The **Homestead Property Tax Credit** is a refundable credit available to eligible Michigan residents who pay high property taxes or rent in relation to their income.

WHO QUALIFIES?

Filers who own a home may qualify for a Homestead Property Tax Credit if:

- The homestead (the principal place of residence) is in Michigan and has a taxable value of no more than \$135,000; **and**
- The filer lived in Michigan for at least six months in 2016; **and**
- The filer was billed for property taxes or paid rent on a Michigan homestead; **and**
- The filer's total household resources are below \$50,000.

HOW DOES THE CREDIT WORK?

The credit is determined based on a percentage of the property taxes that exceeds 3.5% of income. For tax year 2016, the refundable credit is equal to 60% of the amount that property taxes (or generally 20% of rent) exceed 3.5% of income. For filers who are age 65+ with income at \$31,000 or less, the credit is increased to up to 100%. For filers who are disabled, the credit is 100%.

HOW DO FILERS CLAIM CREDIT?

Applicants must use Form MI-1040CR. An applicant should complete both Form MI-1040CR and Form MI-1040CR-2, and return whichever form gives a larger credit, if the applicant is any of the following:

- Blind and owns a homestead;
- Active in the military;
- An eligible veteran or surviving spouse.

Filers do not have to file a tax form to claim the credit, but if they do file a Form MI-1040, they need to carry the credit amount to Line 25.

HOW MUCH IS THE CREDIT?

The amount of the credit depends on the amount of income—\$1,200 is the maximum credit. The computed credit is reduced by 10% for every \$1,000 (or part of \$1,000) that the total household resources exceed \$41,000. The Homestead Property Tax Credit can be used to reduce the amount of taxes owed or it can be issued as a refund.

SAVE MONEY!

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Michigan Home Heating Credit

(Tax Year 2016)

WHAT IS IT?

The **Home Heating Credit** is a state benefit available to eligible low-income households to help offset the cost of heating their homes. For Family Independence Program and State Disability Assistance recipients, the credit is sent directly to the heat provider. More information about heating assistance, including State Emergency Relief and the Weatherization Assistance Program, can be found at www.michigan.gov/heatingassistance.

WHO QUALIFIES?

Michigan residents qualify if they own or rent a homestead in the state, their income is below the income limit and they pay their own heat bills. Residents of congregate care facilities (i.e., adult foster care homes, homes for the aged and substance abuse treatment centers) are ineligible.

HOW DOES THE CREDIT WORK?

The credit is based on: 1) total household resources; 2) the number of exemptions claimed; and 3) the actual home heating costs. The following tables can be used to determine eligibility for the credit. Filers who are eligible under both methods can claim the largest amount.

WHAT HOUSEHOLD INCOME IS USED TO DETERMINE THE CREDIT?

It is important to remember that the Home Heating Credit takes into account a broader set of household income sources than some other credits. This is referred to as “total household resources.” In addition to earnings from employment, total household resources include:

- Family Independence Program benefits (but not food assistance benefits);
- Social Security and/or railroad retirement benefits;
- Child support and foster parent payments;
- Unemployment Insurance compensation;
- Retirement pension, annuity and IRA benefits;
- Workers’/veterans’ disability compensation/pension benefits.

TABLE A

Tax Year 2016 Home Heating Credit Standard Allowance

<i>Your Exemptions (from line 13h)</i>	<i>Standard Allowance</i>	<i>Income Ceiling</i>
0 or 1	\$458	\$13,070
2	\$618	\$17,642
3	\$777	\$22,185
4	\$937	\$26,756
5	\$1,096	\$31,299
6	\$1,255	\$35,842
	+\$160 for each exemption over 6	+\$4,571 for each exemption over 6

TABLE B

Exemptions and Maximum Income for the Alternative Credit Computation

<i>Your Exemptions (from line 13h)</i>	<i>Maximum Income</i>
0 or 1	\$13,826
2	\$18,605
3	\$23,389
4 or more	\$24,018

WHAT ARE THE AVAILABLE EXEMPTIONS?

Residents may claim one exemption for each of the following:

- Self, unless claimed as a dependent on someone else’s return;
- The filer’s spouse;
- The filer’s children who live with the taxpayer;

- Any other dependent of which the filer has custody and for whom the filer furnishes more than half the support.

The additional exemption for seniors has been removed. Unemployment Insurance is no longer exempt.

HOW DO FILERS CLAIM THE CREDIT?

- Filers must use Form MI-1040CR-7. This form can either be submitted with your tax refund or alone if you are not required to file a MI-1040.
- Filers who pay their heating bills themselves under their own name will be sent an energy draft (voucher). The draft must be sent to the energy provider, who will apply the draft amount to the outstanding balance.
- Renters who have heat included in the rent will be sent a check for one-half of the credit amount.
- If a filer is a public assistance recipient whose heat is provided by DTE Energy, Consumers Energy or SEMCO Energy Gas, the Home Heating Credit will be sent directly to the worker's heat provider.
- The due date for filing is September 30th.

Note: If the credit amount exceeds the filer's heat account balance, the filer may receive a refund from the heat provider for the overpayment, if eligible. (To be eligible, the filer must have no outstanding balance with the heat provider and must not have received heat assistance in the past 12 months.) If not eligible, the excess refund will be applied toward future bills. If, after nine months, a refund balance still remains on account with the heat provider, the heat provider will issue a refund.

SAVE MONEY!

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