

**House Bill 4185**  
**Sponsor: Rep. Jim Howell**  
**Committee: Tax Policy**

**Complete to 8-13-01**

**A SUMMARY OF HOUSE BILL 4185 AS INTRODUCED 2-13-01**

The bill would amend the Income Tax Act to allow all distributions from a 401(k) plan to be included in the definition of "retirement or pension benefits" for the purpose of deducting such benefits when determining taxable income. Similarly, the distributions from 403(b) plans would be included in the definition. The existing provisions that prevent some 401(k) and 403(b) plans from being deducted from taxable income would be eliminated from the act. (The provision limiting the total amount of retirement and pension benefits that can be deducted from taxable income would remain the same.)

[Under the Income Tax Act, taxpayers can deduct certain retirement and pension benefits when calculating taxable income for purposes of determining how much tax is due. A taxpayer was allowed to deduct up to \$34,920 for a single filer or \$69,840 for a joint filer. These amounts are adjusted for inflation annually. However, those amounts of retirement and pension benefits that can be deducted must be reduced by the amount of public retirement benefits received. The law currently allows some 401(k) distributions to be included in the retirement and pension benefits to be deducted and excludes some others. Specifically, the instructions accompanying the state tax form say that a taxpayer can deduct distributions from a 401(k) plan attributable to employer contributions or attributable to employee contributions to the extent that they result in matching contributions by the employer. Other 401(k) distributions currently cannot be deducted. A 401(k) plan takes its name from the number of the section of federal law under which such plans are authorized. It is a deferred compensation plan that allows a portion of an employee's salary to be withheld and placed in a special savings account or profit-sharing plan, without being subject to taxes. Income accumulates on the deferred compensation until amounts are withdrawn.]

MCL 206.30

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