



Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 409 (as introduced 6-7-11)
Sponsor: Senator Goeff Hansen

CONTENT

The bill would amend the definition of "taxable income" in the Income Tax Act to exclude retirement or pension benefits from employment with a government agency that was not covered by the Social Security Act, to the extent those benefits were included in adjusted gross income.

Under the Income Tax Act, for a person other than a corporation, estate, or trust, "taxable income" means adjusted gross income, as defined in the Internal Revenue Code, subject to various adjustments. The adjustments require a person to deduct, to the extent included in adjusted gross income, compensation received for services in the Armed Forces of the United States, and (beginning January 1, 2012) retirement or pension benefits under the Federal Railroad Retirement Act. The bill also would require the deduction of retirement or pension benefits from employment with a government agency that was not covered by the Social Security Act.

MCL 206.30

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce State revenue, beginning January 1, 2012, by an unknown and potentially significant amount. Depending on the assumptions used, the revenue reduction could be between \$10.0 million and \$23.0 million. The reduction would affect both General Fund and School Aid Fund revenue.

Under current law, retirement or pension benefits received by an individual as a result of employment with a governmental agency are exempt from taxation under subsection (1)(f)(i) and (1)(f)(ii) of Section 30. Public Act 38 of 2011 subjects some or all of this income to taxation, depending on the year the individual was born and the amount of other retirement or pension income from other sources, effective January 2012.

The fiscal impact assumes the bill would not be effective until January 1, 2012. However, the bill does not specify an effective date and if it were enacted and had immediate effect, the bill would accelerate many of the changes in Public Act 38 of 2011 and thus increase revenue in FY 2010-11 by a significant amount.

The bill would have no fiscal impact on local government.

Date Completed: 6-8-11

Fiscal Analyst: David Zin