Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 409 (as enacted) **PUBLIC ACT 597 of 2012**
Sponsor: Senator Goeff Hansen

Date Completed: 9-11-13

CONTENT

The bill amended the Income Tax Act to do the following:

-- **Increase the exemption allowed for retirement or pension benefits, if a taxpayer receives those benefits from governmental employment that was not covered by Social Security.**
-- **Allow an exemption for retirement or pension benefits received for services in the Michigan National Guard.**

These amendments took effect on January 1, 2012.

Non-Social Security Retirement Benefits

Under the Act, a taxpayer born between 1946 and 1952 may claim an exemption public or private pension and retirement income subject to a limit of $20,000 for a single return or $40,000 for a joint return. After the taxpayer reaches age 67, the exemption amount remains the same but applies to all income, including retirement and nonretirement income. The Act also allows a full exemption for Social Security income and other select types of income.

A taxpayer born after 1952 may not exempt public or private pension or retirement income other than Social Security income, until he or she reaches age 67. At that time, the standard personal exemption is replaced with an exemption (limited to $20,000 for a single return or $40,000 for a joint return) against all income, including Social Security income and other types of income (including retirement and nonretirement income).

Under the bill, these provisions continue to apply except as provided below.

For a person born between 1946 and 1952 who receives retirement or pension benefits from employment with a governmental agency that was not covered by Social Security, the exemption for retirement or pension income is limited to $35,000 for a single return or $55,000 for a joint return. The maximum exemption is $70,000 for a joint return, however, if both the husband and wife filing jointly receive retirement or pension benefits from employment with a governmental agency that was not covered by Social Security. As otherwise provided, when the taxpayer reaches age 67, the exemption amount remains the same but applies to all income.

If a person born after 1952 is between 62 and 66 years of age, and receives retirement or pension benefits from employment with a governmental agency that was not covered by Social Security, the bill allows an exemption of retirement or pension income subject to a limit of $15,000 for a single or joint return. The maximum exemption for a joint return is

$30,000, however, if both spouses receive retirement or pension benefits from such employment.

National Guard Retirement Benefits

The Act allows a taxpayer to deduct from taxable income, to the extent included in adjusted gross income, compensation received for services in the Armed Forces of the United States, and retirement or pension benefits under the Federal Railroad Retirement Act.

The bill also allows the deduction of retirement or pension benefits received for services in the Michigan National Guard.

(As previously provided, a person who takes the deduction for these benefits is not eligible for the $20,000/$40,000 exemption for pension or retirement benefits described above. The person also is ineligible for the $35,000/$55,000 (or $70,000) exemption allowed under the bill for retirement or pension benefits from employment with a governmental agency not covered by Social Security.)

MCL 206.30 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Based on estimates from the Department of Treasury, the bill will reduce individual income tax revenue by approximately $4.4 million in FY 2012-13 and $2.8 million per year in later fiscal years. Most of the revenue reduction will lower General Fund revenue, although School Aid Fund revenue will decline by approximately $0.3 million per year.

Under the law, retirement or pension benefits received by an individual as a result of employment with a governmental agency are exempt from taxation under subsections (1)(f)(i) and (1)(f)(ii) of Section 30 (which allow a deduction for retirement or pension benefits from a Federal, state, or local public retirement system). 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 bill will have no fiscal impact on local government.

Fiscal Analyst: David Zin