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BILL ANALYSIS

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Senate Bill 368 (as reported by the Committee of the Whole)
Sponsor: Senator Ken Horn
Committee: Finance

**CONTENT**

The bill would amend the Income Tax Act to extend to a person who was retired on January 1, 2013, an increased deduction for retirement or pension benefits from governmental employment that was not covered by Social Security. The bill would be retroactive and effective for tax years beginning on and after January 1, 2013.

Depending on a taxpayer's age and when he or she was born, the Act sets a limit on the amount of pension and retirement income that the taxpayer may deduct from taxable income. A full deduction is allowed for Social Security income and other select types of income (except as otherwise provided for a taxpayer born after 1952).

For a taxpayer born between 1946 and 1952 the deduction for public or private pension and retirement income is limited to $20,000 for a single return or $40,000 for a joint return. After the taxpayer reaches age 67, the limit remains the same but applies to all types of income, including retirement and nonretirement income, although the taxpayer may continue to take the full deduction for Social Security income.

A taxpayer born after 1952 may not deduct public or private pension or retirement income, other than Social Security income, until he or she reaches age 67. At that time, the person may take a deduction (limited to $20,000 for a single return or $40,000 for a joint return) against all types of income, including Social Security, instead of claiming the standard personal exemption.

Beginning January 1, 2013, 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 deduction for retirement or pension income is limited to $35,000 for a single return or $55,000 for a joint return. The maximum deduction is $70,000 for a joint return, if both spouses filing jointly receive retirement or pension benefits from employment with a governmental agency that was not covered by Social Security. When the taxpayer reaches age 67, the deduction 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 Act allows a deduction of retirement or pension income subject to a limit of $15,000 for a single or joint return. The maximum deduction for a joint return is $30,000, if both spouses receive retirement or pension benefits from such employment.

Under the bill, the provision for a person born between 1946 and 1952 also would apply to a person born after 1945 who was retired as of January 1, 2013. The current provision for a person born after 1952 would apply except as otherwise provided for a person who was retired as of January 1, 2013.

MCL 206.30

Legislative Analyst: Suzanne Lowe

## FISCAL IMPACT

The bill would reduce General Fund and School Aid Fund revenue by an unknown, but likely minimal, amount that would depend on the number of individuals affected and their specific financial characteristics. The bill would affect individuals born after 1945, who were retired as of January 1, 2013, and receive retirement or pension benefits from employment with a government agency that was not covered by the Federal Social Security Act. The bill does not define the criteria an individual would have to meet in order to be considered retired. Some of these individuals, who were born before 1953, already receive a deduction for a portion of the affected income. For these individuals, the increase in the deduction would be between $20,000 and $25,000. Individuals affected by the bill but born after 1952 do not receive any deduction until they reach age 62, and if they are not receiving a deduction, the bill would provide a deduction of either $35,000 or $55,000.

While the bill would increase the amount of retirement income that may be deducted from taxable income to $55,000 per return, depending on filing status, the maximum impact for any individual taxpayer would be a liability reduction of $2,338 per year for a joint return not currently receiving any deduction. Some taxpayers would not have sufficient income to fully claim the increased deduction amounts and would experience lesser reductions in liability.

The number of individuals born after 1945, who were retired as of January 1, 2013, and receive retirement or pension benefits from employment with a government agency that was not covered by the Federal Social Security Act, is unknown. The most commonly affected individuals were employed in police or fire protection occupations, which represent approximately 0.07% of total Michigan employment, and at least a portion of these individuals worked in positions covered by the Social Security Act. Assuming 0.07% of Michigan residents over the age of 65 would be affected by the bill, and all of these individuals experienced the maximum liability reduction available under the bill, the bill would reduce State revenue by approximately $2.6 million. To the extent that some individuals already receive some deduction, some individuals file as singles, and some report less income than the proposed deduction, the impact of the bill would be less.

Because the bill indicates it would be retroactive, the impact in FY 2015-16 would be roughly three times the annual impact of the bill. As a result, the bill could reduce FY 2015-16 revenue by as much as $7.8 million, with revenue reductions in later years declining to approximately $2.6 million.

Date Completed: 11-13-15 Fiscal Analyst: David Zin