

## INCOME TAX DEDUCTION FOR CERTAIN RETIREMENT INCOME

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**House Bill 4396 as introduced**  
**Sponsor: Rep. Joseph N. Bellino, Jr.**  
**Committee: Tax Policy**  
**Complete to 5-24-17**

### SUMMARY:

House Bill 4396 would amend the Income Tax Act (MCL 206.30) to extend a certain retirement income tax deduction to a specific group of retirees who were not covered by the federal Social Security system. Generally speaking, the bill would provide an increased income tax deduction for individuals that meet the following criteria: (1) were born after 1945; (2) retired as of January 1, 2013; and (3) receive retirement or pension benefits from employment with a governmental agency that was not covered by Social Security.

(A deduction reduces taxable income in the calculation of tax liability.)

The bill would also appear to standardize the use of the term "retirement or pension benefits" throughout the section.

The bill is retroactive and effective for tax years beginning on and after January 1, 2013.

### DETAILED SUMMARY:

Currently, a person **born in 1946 through 1952 who has not yet reached the age of 67** and who receives retirement or pension benefits from employment with a governmental agency that was not covered by Social Security can deduct up to:

- **\$35,000** in retirement or pension benefits from that agency (single filer)
- **\$55,000** in retirement or pension benefits from that agency (joint filers)
- **\$70,000** in retirement or pension benefits from that agency (joint filers, if both spouses worked at an "uncovered" agency)

Once the person **reaches the age of 67**, the deduction amounts remain the same, but the deduction is available against all types of income and is not restricted to income from retirement or pension benefits.

House Bill 4396 would extend the income tax treatment described above to **a person born in any year after 1945 and who was retired as of January 1, 2013**. The person would still be required to have been employed by and receive retirement or pension benefits from a governmental agency that was not covered by Social Security.

## **ADDITIONAL INFORMATION:**

Under current law, a person **born after 1952 who has reached the age of 62 through 66 years of age** and who receives retirement or pension benefits from employment with a governmental agency that was not covered by Social Security can deduct up to:

- **\$15,000** in retirement or pension benefits from that agency (single AND joint filers)
- **\$30,000** in retirement or pension benefits from that agency (joint filers, if both spouses worked at an "uncovered" agency)

Under HB 4396, these provisions would still apply to those who were not retired as of January 1, 2013.

## **BRIEF BACKGROUND:**

The income tax treatment of retirement income has changed in recent years.<sup>1</sup> Public Act 38 of 2011 reduced the deduction for retirement income (from both public and private pensions), with the amount of the deduction dependent on the taxpayer's age and birth year. PA 597 of 2012 provided the current retirement income deduction for individuals not covered under Social Security during their government employment.

## **FISCAL IMPACT:**

The bill would reduce revenues by \$2.3 to \$2.6 million on an annual basis. However, because the bill is retroactive to tax year 2013, the provisions of the bill could reduce revenues in FY 2017-18 by approximately \$11.0 to \$13.0 million to accommodate prior years. Approximately 76.2% of any revenue reduction would impact the General Fund and 23.8% would impact the School Aid Fund.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

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<sup>1</sup> For a chart of the current tax treatment of retirement income, see Michigan Department of Treasury, "Income Tax for Retirement Benefits Effective for Tax Year 2016"  
[http://www.michigan.gov/documents/taxes/2016RetirementAndPensionBenefitsChart\\_544015\\_7.pdf](http://www.michigan.gov/documents/taxes/2016RetirementAndPensionBenefitsChart_544015_7.pdf)