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BILL ANALYSIS

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Senate Bill 467 (as introduced 5-20-21)
Sponsor: Senator Jim Runestad
Committee: Finance

Date Completed: 6-2-21

CONTENT

The bill would amend the Income Tax Act to increase the amount an individual who was born after 1945, and had reached the age of 67, is eligible to deduct from his or her income starting January 1, 2021, and to adjust the amount of the deduction with inflation beginning with the 2022 tax year.

The bill states that it is intended to be retroactive and would apply to tax years that begin on and after January 1, 2021.

Pension & Retirement versus Unrestricted Income Deduction

Under the Act, "taxable income" means, for a person other than a corporation, estate, or trust, adjusted gross income as defined in the Internal Revenue Code, subject to the adjustments specified in the Act. These adjustments generally include a deduction to the extent included in adjusted gross income for certain retirement or pension benefits received from a Federal or State public retirement system, Social Security benefits, and retirement benefits from another retirement or pension system or a retirement annuity policy to a maximum of $42,240 for a single return and $84,480 for a joint return. This deduction is subject to various limitations and restrictions specified in the Act.

For an individual born before 1946, there are no restrictions or limitation for the deduction. For an individual born in 1946 but before 1952, the sum of the deduction for the benefits described above, except for Social Security benefits, is limited to $20,000 for a single return and $40,000 for a joint return.

After he or she reaches the age of 67, the deduction for those benefits does not apply and he or she is eligible for a deduction of $20,000 for a single return and $40,000 for a joint return against all types of income. This would apply through December 31, 2020. Beginning January 1, 2021, after he or she reached the age of 67, the deduction for that those benefits would not apply and he or she would be eligible for a deduction of $25,000 for a single return or $50,000 for a joint return; the deduction would be available against all types of income and would not be restricted to income from retirement or pension benefits.

Except as otherwise provided, for an individual born after 1952, the deduction for pension or retirement benefits does not apply, and when he or she reaches the age of 67, the individual is eligible for a deduction of $20,000 for a single return or $40,000 for a joint return against all types of income. Under the bill, this would apply through December 31, 2020. Beginning January 1, 2021, when that individual reached the age of 67, he or she would be eligible for a deduction of $25,000 for a single return or $50,000 for a joint return; this deduction would be against all types of income and would not be restricted to income from retirement or pension benefits.

As is currently the case, if a person takes this unrestricted deduction, he or she may not take the deduction for Social Security benefits or the personal exemption. Also, he or she may elect not to take the unrestricted deduction and the deduction Social Security benefits and the personal exemption if that election would reduce his or her tax liability. A person who takes a deduction for pension or retirement benefits for service in the Armed Forces or National Guard or under the Railroad Retirement Act is not eligible for the unrestricted deduction for a joint return.

Inflation

For the 2022 tax year and each tax year after 2022, the maximum deduction amounts allowed above would have to be adjusted by multiplying the deduction amount allowed for the 2021 tax year by a fraction, the numerator of which would be the United States Consumer Price Index (CPI) for the State fiscal year ending in the tax year before the tax year for which the adjustment was being made and the denominator of which would be the US CPI for fiscal year (FY) 2019-2020. That resultant product would be rounded to the nearest $100 increment.

MCL 206.30 Legislative Analyst: Christian Schmidt

FISCAL IMPACT

The bill would reduce General Fund and School Aid Fund (SAF) revenue by approximately $92.0 million per year in tax year 2022, and the revenue reduction would increase by approximately $10.0 million to 15.0 million per year in later tax years as additional taxpayers turned age 67 and exemption amounts were indexed. The bill would affect individuals born after 1945 and who are at least 67 years old.

The bill would increase the amount of income that may be deducted by $5,000 per return for single filers, and $10,000 per return for joint returns. As a result, the maximum impact for any individual taxpayer would be a liability reduction of $213 per year for a single return and $425 for a joint return. Some taxpayers would not have sufficient income to fully claim the increased deduction amounts and would experience lesser reductions in liability.

Individual income tax revenue is split between the General Fund and the SAF, with the SAF receiving approximately 23.8% of any gross collections. The splits between the funds would depend on how the increased exemption affected individual income tax withholding, as well as estimated and annual payments, and refunds. Increased refunds would lower only General Fund revenue, while 23.8% of reduced withholding, estimated, or annual payments would lower School Aid Fund revenue, with the remaining reduction lowering General Fund revenue.

Similarly, while if the bill took effect before September 30, 2021, the revenue reduction for FY 2020-21 and FY2021-22 would depend on how the revenue reduction was split between reduced withholding and estimated received in FY 2020-21, and reduced annual payments and increased refunds for tax year 2021 that would be received when tax year 2021 returns were due in April 2022—during FY 2021-22. For example, if the tax year 2021 impact were $85.0 million, the bill took effect on July 1, 2021, and 75% of any impact were reflected in withholding and estimated payments, the bill would reduce FY 2020-21 revenue by approximately $15.9 million but would lower FY 2021-22 revenue by approximately $120.8 million.

Fiscal Analyst: David Zin