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

BILL ANALYSIS

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

Senate Bill 1 (as reported without amendment)
Sponsor: Senator Kevin Hertel
Committee: Finance, Insurance, and Consumer Protection

CONTENT

The bill would amend the Income Tax Act to allow a taxpayer, beginning in the 2023 tax year, to choose between the current limitations on the deductibility of retirement and pension income or the limitations specified in the bill.

Under the Act, "taxable income" means, for a person other than a corporation, estate, or trust, adjusted gross income (AGI) as defined in the Internal Revenue Code, subject to the adjustments specified in the Act. These adjustments include a deduction to the extent included in AGI for certain retirement or pension benefits. Currently, the deduction that a taxpayer may claim depends on the year in which he or she was born, particularly with respect to seniors and those who receive retirement or pension benefits. These deductions are subject to various limitations and restrictions specified in the Act. Under the bill, in determining taxable income, a taxpayer could use the following limitations and restrictions for the deductibility of retirement income instead of those currently applicable:

-- For the 2023 tax year: a taxpayer who was born after 1945 and before 1959 could deduct an amount of retirement or pension benefits not to exceed 25% of the maximum amount of those benefits that the taxpayer would be allowed to deduct for the tax year for other retirement benefits or annuity income (i.e., not military, State, or Federal retirement benefits) if the taxpayer were subject to the limitations for those born before 1946.
-- For the 2024 tax year: a taxpayer who was born after 1945 and before 1963 could deduct an amount of retirement or pension benefits not to exceed 50% of the amount described above.
-- For the 2025 tax year: a taxpayer who was born after 1945 and before 1967 could deduct an amount of retirement or pension benefits not to exceed 75% of the amount described above.
-- For after the 2025 tax year: a taxpayer may deduct eligible retirement or pension benefits received from a Federal or State public retirement system, Social Security benefits, and a maximum of $42,240 for a single return and $84,480 for a joint return, as adjusted for inflation since 2007, for retirement benefits from another retirement or pension system or a retirement annuity policy, without any additional limitations or restrictions.

The bill also would modify the amount of gross collections from the individual income tax that the Department of Treasury must deposit into the State School Aid Fund.

MCL 206.30 & 206.51 Legislative Analyst: Jeff Mann

FISCAL IMPACT

Based on estimates from the Department of Treasury, the bill would reduce General Fund revenue by approximately $39.0 million fiscal year (FY) 2022-23, $175.0 million in FY 2023-24, $339.0 million in FY 2024-25, and $455.0 million in FY 2025-26. The bill's provisions would not be fully phased in by FY 2025-26. Consequently, FY 2026-27 would be the first full

fiscal year to reflect the fully phased-in provisions and the revenue loss likely would exceed $500.0 million. The revenue loss would continue to increase in later years because of population demographics, which are projected to result in an aging population. These demographic changes will increase the share of total taxpayers affected by tax provisions on senior or retirement income, meaning that revenue losses from exempt senior or retirement income will not be fully offset by increased revenues from new entrants to the tax system.

Date Completed: 1-31-23 Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.