Legislative Analysis

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INCOME TAX TREATMENT OF RETIREMENT INCOME FOR SURVIVING SPOUSE

House Bill 4301
Sponsor: Rep. Jim Townsend
Committee: Tax Policy

Complete to 12-1-14

A SUMMARY OF HOUSE BILL 4301 AS INTRODUCED 2-21-13

House Bill 4301 would change the tax treatment of retirement income for certain individuals by amending Section 30 of the Income Tax Act. Under current law, the retirement income of married couples filing jointly is treated based on the age of the older spouse. This bill would continue this tax treatment for the younger spouse after the death of the older spouse, as long as the surviving spouse did not remarry during the tax year. (The language used is not permissive, meaning the taxpayer cannot elect which tax treatment to use.)

BACKGROUND INFORMATION:

Michigan taxpayers are divided into three age groups that determine the treatment of their retirement tax income; those born before 1946, those born from 1946 through 1952, and everyone born after 1952. The table below describes how most retirement income for each of these groups is treated.

Income Tax Treatment of Retirement Income by Filer's Birth Year		
Before 1946	1946-1952	After 1952
- All public pension income is exempt - For private pensions, up to $49,207 for single, and $98,054 for joint filers can be exempted, less any public benefits already exempted - Up to $10,767 (single filer) or $21,534 (joint filer) of interest, dividends, or capital gains can be exempted, less any pension income that has been exempted	- Before turning 67, retirement income can be exempted up to $20,000 for single and $40,000 for joint filers - After 67 those same maximum exemptions can be applied against all types of income, not just retirement income	- Between the ages of 62 and 66, retirement benefits from government agencies not covered by social security can be exempted up to $15,000 per individual receiving those benefits - From age 67 on, single filers can exempt $20,000 and joint filers can exempt $40,000 against all income

FISCAL IMPACT:

As written, the bill would reduce gross income tax revenue to the state, impacting the General Fund and School Aid Fund. The amount of this reduction depends on the specific characteristics of individual taxpayers, including their ages, marital status, source and size of retirement income. This data are not available in advance, which does not allow for a quantitative estimate at this time. The language of the bill also suggests that taxpayers could file amended returns, which would also constitute a loss to the state of an unknown amount.

While the aggregate effect on state revenues would be negative, in a small number of cases taxpayers would see their income tax burden increase. For example, surviving spouses born after 1946 with smaller retirement benefits, and who are still working after age 67, could actually end up with a higher income tax liability than under current law.

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