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BILL ANALYSIS

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Senate Bill 584 (as introduced 9-25-25)
Sponsor: Senator Jeff Irwin
Committee: Finance, Insurance, and Consumer Protection

Date Completed: 12-2-25

CONTENT

The bill would amend the Income Tax Act to make optional the current requirement that an employer or other payee of retirement benefits withhold income tax on those retirement benefits.

The bill would take effect January 1, 2026.

Generally, pensions, annuities, and other retirement benefits are considered taxable income, either fully or partially. As such, the Act requires an employer or other entity that pays retirement benefits, such as a life insurance company, to withhold income tax on the taxable part of an employee's retirement benefits.[1] Specifically, this includes an employer pension, annuity, profit-sharing, stock bonus, or other deferred compensation plan, as well as an individual retirement arrangements like an annuity, an endowment, or a life insurance contract issued by a life insurance company.

The bill would make this withholding optional. The bill would further provide that a person that chose to withhold a tax would be subject to the same requirements as a person required to withhold a tax.

An individual whose employer or other retirement benefits payee opted not to withhold income tax would instead have to pay income tax on the individual's retirement benefits when the individual filed the individual's annual tax return.

MCL 206.703 Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bill would have no fiscal impact on total State revenue but could shift the distribution between General Fund (GF) and School Aid Fund (SAF) revenue by an unknown and likely minimal amount. Taxpayers who fail to notify their pension and annuity payment providers of any reductions in individual income tax liability risk paying more in withholding than their liability. While the taxpayer will eventually claim any overwithholding as a refund, because the SAF receives a specified share of gross revenue and all refunds are paid from GF revenue, instances of overwithholding result in a greater transfer of GF revenue to the SAF than would occur in the absence of overwithholding. By allowing pension and annuity payment providers the option to forgo withholding, the bill would reduce the likelihood of taxpayers overwithholding and reduce refunds paid from the GF.

In the case of reductions in tax liability attributable to changes resulting from Public Act 4 of 2023, which made substantial changes in the taxation of retirement income, Public Act 4 also

[1] Currently, Michigan's income tax rate is a flat 4.25%.

altered the percentage of gross revenue earmarked to the SAF to hold the SAF harmless for the changes. As a result, there is no potential fiscal impact from the bill related to the changes in Public Act 4 of 2023.

Fiscal Analyst: David Zin