



## MICHIGAN TAX CHANGES AND THE IMPACT ON CURRENT AND FUTURE RETIREES

The FY 2012 Michigan Budget includes several changes to the personal income tax and homestead property tax code which will impact the retirement incomes that older adults rely upon. While individuals are encouraged to speak with their tax professional to understand how these changes will affect their situation, a summary of the changes is listed here.

- Social Security for current retirees, active duty military pay and military pensions remain fully exempt from state income tax.
- The special \$2,300 exemption for adults age 65+ is eliminated. Loss of this exemption will cost individuals who pay income tax approximately \$100 more in income tax. ( $\$2,300 \times 4.35\%$ )
- The \$3,700 personal exemption for all individuals will be phased out for taxpayers with household resources\* between \$75,000 and \$100,000 for singles, and \$150,000 and \$200,000 for married couples. The full tax value of this exemption is \$160.95. ( $\$3,700 \times 4.35\%$ ). \*Resources include disability and other payments.
- The current exemption for income from dividends, interest and capital gains (\$10,058 single/\$20,115 joint) will remain for seniors born before 1946.
- The Homestead Property Tax Credit will fall approximately 40% (\$200/year) for median income households (\$31,354 annual income), depending on property value. Households with incomes above \$50,000 will no longer be eligible to receive the credit.
- Most refundable and non-refundable credits and miscellaneous subtractions from income are eliminated, such as political contribution; charity game prizes; qualifying distributions from a pension or retirement plan that is contributed to a charity; and city income tax credit.

### PENSION TAX IMPACT ON THREE AGE GROUPS: AGE 67 AND OVER, AGE 60-66, AND AGE 59 AND UNDER

- **AGE 67 AND OVER:** Both public and private pensions for adults age 67 and over retain current tax treatment. Public pensions are fully exempt. Private pensions are exempt up to \$45,120 single/\$90,240 joint per current law. The 2012 tax increase is due to the elimination of the \$2,300 senior exemption and the phase-out of the \$3,700 personal exemption at higher income levels.

<b>Impact of State Tax on Private Pensions – Adults Age 67 and Over</b>			
Income - Individual	2011 Tax	2012 Tax	2012 Tax as % of Total Income
Less than \$48,820 in pension income regardless of Social Security Income	\$0	\$0	0.00%
\$74,952 (\$24,952 SS + \$50,000 P)	\$0	\$51	0.10%
\$77,702 (\$24,952 SS + \$52,750 P)	\$71	\$171	0.20%
\$80,000 (\$24,952 SS + \$55,048 P)	\$171	\$271	0.30%
\$100,000 (\$35,928 SS + \$64,072 P)	\$563	\$824	0.70%
\$200,000 (\$35,928 SS + \$164,072 P)	\$4,913	\$5,174	2.50%
SS: Social Security    P: Pension			

<b>Taxation of Other Retirement Income – Adults Age 67 and Over in 2012</b>
<ul style="list-style-type: none"> <li>• 401ks/IRAs are exempt up to \$45,120 single/\$90,240 joint per current law.</li> <li>• Social Security and military pensions are exempt.</li> </ul>

- **AGE 60-66:** Early pensioners will see their pension tax rise in 2012. Public pensions will be taxed.\* For those aged 60-66 in 2012, the minimum income levels exempt from taxation decreases from \$45,120 single/\$90,240 joint to \$20,000 single/\$40,000 joint. The \$3,700 personal exemption will phase-out at higher income levels.

Impact of State Tax on Private Pensions - Adults Age 60-66						
Income - Individual	AGES 60-64			AGES 65-66		
	2011 Tax	2012 Tax	2012 Tax as % of Pension Income	2011 Tax	2012 Tax	2012 Tax as % of Pension Income
less than \$23,700 pension income	\$0	\$0	0.00%	\$0	\$0	0.00%
\$25,000 pension	\$0	\$ 57	0.23%	\$0	\$ 57	0.23%
\$30,000 pension	\$0	\$ 274	0.91%	\$0	\$ 274	0.91%
\$40,000 pension	\$0	\$ 709	1.77%	\$0	\$ 709	1.77%
\$50,000 pension	\$ 51	\$ 1,144	2.29%	\$0	\$ 1,144	2.29%
\$60,000 pension	\$ 486	\$ 1,579	2.63%	\$ 386	\$ 1,579	2.63%
\$100,000 pension	\$ 2,226	\$ 4,350	4.35%	\$ 2,126	\$ 4,350	4.35%

**Taxation of Other Retirement Income – Adults Age 60-66 in 2012**

- 401ks/IRAs have same tax treatment as pensions.
- Social Security and military pensions are exempt from the income tax.
- If total household resources exceed \$75,000 single/\$150,000 joint, the \$20,000 single/\$40,000 joint exemption is eliminated.

- **AGE 59 AND UNDER:** Pensioners who are younger than 60 in 2012 will not benefit from pension exemptions until they turn 67. The \$3,700 personal exemption will phase-out at higher income levels.

Impact of State Tax on All Pensions – Adults Age 59 and Under			
Income - Individual	2011 Tax	2012 Tax	2012 Tax as % of Pension Income
Less than \$3,700 in pension income	\$0	\$0	0.00%
\$10,000 pension	\$0	\$274	1.10%
\$25,000 pension	\$0	\$927	3.71%
\$30,000 pension	\$0	\$1,114	3.71%
\$40,000 pension	\$0	\$1,579	3.95%
\$50,000 pension	\$51	\$2,014	4.03%
\$60,000 pension	\$486	\$2,449	4.08%
\$100,000 pension	\$2,226	\$4,350	4.35%

**Taxation of Other Retirement Income – Adults Age 59 and Under in 2012**

- 401ks/IRAs have same tax treatment as pensions.
- Military pensions are exempt from the income tax.
- When 67 and older, they will receive a \$20,000 single/\$40,000 joint special senior exemption against all types of income. This exemption can be taken instead of the Social Security and personal exemption if it would result in more generous tax treatment.

\*Taxing public pensions is expected to be challenged in the courts.

(Sources: State Senator John Pappageorge, State Senator Jack Brandenburg, AAA 1-B Budget Analysis)