



AREA AGENCIES ON AGING ASSOCIATION OF MICHIGAN
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This week, the Michigan House voted to increase pension taxes . . . as part of a legislative package that cut business taxes and made other changes to the tax system. Now the Senate has to decide whether to go along with the House or develop its own approach.

The House approved a plan that in broad brush follows the compromise crafted by Speaker Jase Bolger, the Governor and Senate Majority Leader Randy Richardville. There was speculation as to whether Bolger and Richardville could summon enough votes to approve the compromise. Bolger delivered – now it's up to Richardville. Here are key elements of the plan passed by the House. Note there are some differences from the compromise reported in last week's edition:

- those born on or before 12/31/1945 would enjoy the same treatment of retirement, investment and Social Security income as in current law with respect to state income tax. However, the extra exemption for seniors is eliminated.
- Those born between 1/1/1946 and 12/31/1952 would have a reduced pension exemption compared with current law with respect to state income tax. They could take an exemption of \$20,000 individual/\$40,000 couple against retirement income – public and private - until age 67, when they could take the same exemption against all income. However, the \$20,000/\$40,000 exemption would not apply when total household income is over \$75,000 for an individual and \$150,000 for a couple. Social Security and military pensions would be totally exempt from state income tax. There would be no extra exemption for seniors.
- Those born 1/1/1953 and after would pay state income taxes on all pension income – public and private – until the age of 67. (Social Security and military pensions would still be totally exempt, however.) At 67, they would be given two options, either: 1) claim the \$20,000/\$40,000 exemption against all income with no personal exemptions and no Social Security exemption, or 2) keep the Social Security exemption and personal exemptions. However, Option 1 would not be available when total housing income is over \$75,000 for an individual and \$150,000 for a couple. There would be no extra exemption for seniors.
- the Earned Income Tax Credit (EITC) would be eliminated for low-wage workers. Taxpayers formerly eligible for the EITC could claim a \$25 per minor child credit against state income tax.
- the Homestead Property Tax Credit would be scaled back. No credit could be taken by taxpayers with a home with a taxable value of more than \$135,000 (generally taxable value is 50% or less of market value). No credit could be taken by taxpayers with annual household incomes above \$50,000. The credit would be reduced for those with household incomes between \$41,000 and \$50,000. The credit would equal 100% of the amount that property taxes exceed 3.5% of household income for those with \$21,000 or less. The credit would be lower for those above \$21,000.