Estimates of the Fiscal Impact of HB 4361 (H-1) On Pensions and Seniors

Effective Date January 1, 2012 in millions of dollars
From House Fiscal Agency Analysis
Prepared by Mary Pollock, May 6, 2011

	FY 2011-12 Estimates			FY 2012-13 Estimates		
	GF/GP	**SAF**	**Total**	**GF/GP**	**SAF**	**Total**
1. Modify Public/Private Pension Exemption	177.4	47.5	224.9	269.3	73.5	342.8
Phase-Out Pension Exemption on High Incomes > $75,000/$150,000	4.1	1.0	5.1	6.2	1.6	7.8
2. Repeal Senior Interest, Dividend Exemption Age Based	3.2	0.8	4.1	4.9	1.3	6.2
3. Repeal of Senior Personal $2,300 Exemption[1]	-	-	-	-	-	35.0
4. Eliminate Senior Homestead Property Tax Credit; replace with income basis [2]	-	-	-	-	-	136.0
Total	**184.7**	**49.3**	**234.1**	**416.4**	**76.4**	**527.8**

1. <u>Modify Public/private Pension Exemption</u>. Under current law, Social Security, military, federal, state and local government retirement/retirement income is fully exempt. Private retirements are exempt up to $45,120 single/$90,240 joint (TY 2010) – these levels are indexed to inflation. In Michigan, defined benefit plans, IRAs, and annuities are fully exempt. Also, 401(k) distributions attributable to employer contributions or to employee contributions that are matched by the employer are exempt, but distributions attributable to employee contributions that are not matched by the employer are currently subject to the state income tax, subject to the private retirement limits. In addition, 401(k)s with no employer match are not considered retirements and therefore are completely subject to the income tax.

Under this tax proposal, <u>the treatment of retirement income</u> would depend upon a taxpayer's age (and the age of the older spouse for a joint return), as follows:

** Taxpayers born before 1946 would continue to have the same treatment of retirement and Social Security income as in current law, and could claim the personal exemptions for which they are eligible.

** Taxpayers born in 1946 and through 1952 could take an exemption of $20,000 for a single return and $40,000 for joint return against retirement income until age 67, and then could take that same exemption amount against all types of income. In addition, these taxpayers at any age could claim personal exemptions for which they were eligible and could exempt Social Security income. However, the $20,000/$40,000 exemption would not be available where total household resources exceeded $75,000 for a single return or $150,000 for a joint return.

** Taxpayers born after 1952 would receive no exemption for retirement income until reaching age 67, except for the Social Security exemption. Then, they would have a choice between (1) the $20,000/40,000 exemption against all types of income, with no personal exemptions and with

[1] From Jim Stansell, Economist at House Fiscal Agency, email to Mary Pollock, May 6, 2011
[2] From Jim Stansell, Economist at House Fiscal Agency, e-mail to Mary Pollock, May 5, 2011

no additional exemption for Social Security, or (2) continuing the exemption for Social Security, along with the personal exemptions for which they were eligible. However, the $20,000/$40,000 exemption would not be available where total household resources exceeded $75,000 for a single return or $150,000 for a joint return.

Public retirees (local, state, federal) are estimated to be about 1/3 of total Michigan retirees. The estimated FY 2012-13 tax revenues from public retiree pensions would be about $100 million according to Mitch Bean, House Fiscal Agency Director.

2. <u>Repeal the dividends, interest, capital gains exemption received by seniors, but only for seniors born after 1945</u>. Under current law, senior investment income up to $10,058 single/$20,115 joint (TY 2010, indexed to inflation) is exempt. This exemption would continue to apply to seniors born in 1945 and earlier.

3. <u>Repeal the $2,300 (TY 2010, indexed to inflation) special exemptions</u> for seniors and individuals with unemployment compensation equal to or greater than 50% of their AGI (adjusted gross income, Michigan's starting point from federal return).

4. <u>Homestead property tax credit (HSPTC) changes</u>. For TY 2008, Michigan taxpayers with household income less than $82,650 may claim a property tax credit, and the computed credit is reduced by 10% for every $1,000 that household income exceeds $73,650. Under current law, the credit is equal to 60% of the amount by which property taxes (or 20% of rent for renters) exceed 3.5% of household income, up to a maximum of $1,200. For seniors and disabled filers, the credit is equal to 100% of the difference. Under the proposal, taxpayers that currently take the HSPTC with household income between $50,000 and $82,650 (roughly 268,500 filers) would no longer be able to take the credit.

Under the proposal, the <u>homestead credit would be altered</u> as follows:

** A person would not be eligible if the taxable value of the homestead exceeded $135,000. (Taxable value would presumably be 50% of the market value of a newly purchased home -- $270,000-- and somewhat less than 50% of market value for other homes, depending on duration of ownership.)

** Taxpayers with total household resources above $50,000 could not claim the credit, and the credit would phase out for those with total household resources between $41,000 and $50,000.

** The credit would be equal to 100% of the amount by which property taxes (or imputed property taxes for renters) exceed 3.5% of total household resources for those with total household resources of $21,000 or less; and 96% for those with total household resources over $21,000 and up to $22,000. The percentage that could be claimed would be reduced by 4% for each additional $1,000 in total household resources ending with those with total household resources of over $30,000 able to claim 60% of the amount by which property taxes exceed 3.5% of total household resources.

In TY 2008, about 453,200 senior credits were allowed and the average credit was $770. Also, 1,058,500 general credits were allowed and the average credit was $498.