



How the New Tax Laws Affect Michigan Retirees

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Late last month, House Bill 4361 took effect which will change the way pensions are taxed at the state level. We have reviewed the bill, talked to Lansing and would like to briefly sum up how it will affect retirees.

Starting in 2012, retirement income may be subject to state income tax. The law sets up a three-tier system, depending on a retiree's age. All three tiers avoid taxing Social Security income and military pensions. **For couples, the age of the older spouse applies.** Here's how the system works:

1. Residents born before 1946 (currently 65 or older) will continue to get the same tax breaks they have now. Public pensions will not be taxed. Income from private pensions, 401(k)s and IRAs will not be taxed on amounts up to \$45,120 for single filers and \$90,240 for joint filers.
2. Residents born between January 1, 1946 and December 31, 1952, (currently age 59-64), will have all retirement income liable to tax, whether it's from a public or private pension, 401(k) or IRA. Exemptions can be claimed for up to \$20,000 for a single filer and up to \$40,000 for joint filers. Above those levels, retirement income will be taxed at the

state income tax rate of 4.35 percent. When these residents turn 67, the \$20,000/\$40,000 exemption applies to all income, not just retirement income. If household resources exceed \$75,000 for a single return or \$150,000 for a joint return, the \$20,000/\$40,000 exemption is eliminated. The exemption also is eliminated if a taxpayer claims a deduction for a military or railroad pension.

3. Residents born after 1952 (currently under age 59), will see all retirement income taxed as regular income until they turn 67, at which point they'll qualify for a senior income exemption of \$20,000 for single filers and \$40,000 for joint filers on all income. If household resources exceed \$75,000 for a single return or \$150,000 for a joint return, the \$20,000/\$40,000 exemption is eliminated. A taxpayer can forego the \$20,000/\$40,000 exemption and instead deduct 100 percent of Social Security income. A taxpayer claiming the \$20,000/\$40,000 exemption can't claim the deduction for Social Security or the standard personal exemption.

We understand that many of you are concerned about how this will impact your bottom line. Please don't hesitate to call us if you would like to discuss your individual situation in detail.



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