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Certified Public Accountants

CHANGES IN MICHIGAN TAXATION STARTING IN 2012

Michigan has changed how it taxes retirement income; these changes start with the 2012 tax year (returns filed in 2013) and are summarized below.

Taxpayers born before 1946: No changes from current law apply. Social Security is exempt. Senior citizen subtraction for interest, dividends and capital gains is unchanged. Public pensions are exempt. For 2012, taxpayers receiving private pensions can subtract up to $47,309 for single filers and $94,618 for joint filers.

Taxpayers born 1946 to 1952: Before the taxpayer reaches age 67: Social Security is exempt; railroad pension income is exempt; military pension income is exempt; the taxpayer is not eligible for the senior citizen exemption for interest, dividends and capital gains; a taxpayer receiving public and private pension is subject to a limited subtraction of $20,000 for single filers or $40,000 for joint filers.

After the taxpayer reaches age 67 (will first occur in 2013): Social Security is exempt; railroad pension income is exempt (but see below); military pension income is exempt (but see below); the taxpayer is not eligible for a senior citizen subtraction for interest, dividends and capital gains; a subtraction is allowed against all income of $20,000 for single filers and $40,000 for joint filers. The taxpayer is not eligible for an income exemption if claiming a military or railroad pension exemption. (Basically, if your IRA / pension income is less than $40,000 you won't see any increase in tax due to this change).

Taxpayers born after 1952: Before the taxpayer reaches age 67: Social Security is exempt; railroad pension income is exempt; military pension income is exempt; the taxpayer is not eligible for the senior citizen subtraction for interest, dividends and capital gains; and the taxpayer is not eligible for a public or private pension subtraction. (Basically, if you turn 60 in 2013 and receive IRA / pension benefits before you turn 67, you'll pay Michigan income tax on everything you receive except for social security. Everything else is taxable. The change is that your IRA / pension income was typically not taxed.)

After the taxpayer reaches age 67 (will first occur in 2020): the taxpayer is not eligible for a senior citizen exemption for interest, dividends and capital gains; and the taxpayer is not eligible for a public or private pension subtraction. The following income exemption election applies:

- Taxpayers can elect an exemption against all income of $20,000 for single filers or $40,000 for joint filers. No exemption is allowed for Social Security, military or railroad retirement income; and no personal exemptions are allowed. OR
- Taxpayers can elect to exempt Social Security, military and railroad pensions. The taxpayer may claim personal exemptions. (Basically – if your social security income is less than $40,000 you'll get an additional decrease in taxable income equal to $40,000 (or $20,000, if single) minus your social security income. Most people do not have combined taxable social security equal to that amount, so most people would get some additional benefit, but this won't apply until 2020, so, it may not be much of a break)

Note that for joint returns, the age of the oldest spouse determines the age category that will apply to the pension and retirement benefits of both spouses regardless of the age of the younger spouse.

Please feel free to send me an email if you have any further questions.

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