

Legislative Analysis



INCOME TAX TREATMENT OF RETIREMENT INCOME OF SURVIVING SPOUSE

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House Bill 5034 as introduced
Sponsor: Rep. Aaron Miller
Committee: Tax Policy
Complete to 11-28-17

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 5034 would amend the Income Tax Act (MCL 206.30) to provide that the tax treatment of retirement income for a married couple filing jointly could be extended to the surviving spouse after the death of the older spouse.

Currently under the act, when taxpayers file a joint return, the limitations and restrictions on retirement income deductions are based on the age of the older spouse.¹

HB 5034 would change this provision, and stipulate that the limitations and restrictions on the joint return are based on the older spouse's date of birth, not age.

Then, for tax years beginning after December 31, 2017, for the retirement deductions claimed in a tax year in which a spouse died, the surviving spouse would be entitled to claim in subsequent tax years the deductions that would have applied based on the date of birth of the older spouse. This would only be available if the spouse did not remarry, and the limitations and restrictions would apply to a single return.

A surviving spouse born after 1945 who was at least 67 years old (and had not remarried) could elect to take the standard deduction against all types of income, rather than taking any other deductions allowed for a single filer based on the date of birth of the older spouse.

FISCAL IMPACT:

Although the number of taxpayers who will qualify for the preferential tax treatment and the amount of income affected cannot be known in advance, the impact upon income tax revenue will likely be less than \$5.0 million per year, and will get smaller over time as the cohort that is able to qualify shrinks. It's anticipated that the majority of the revenue loss will be borne by the general fund.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

¹ For a chart describing income tax treatment for retirement benefits, see "Income Tax For Retirement Benefits, Effective for Tax Year 2016" from the Michigan Department of Treasury:
http://www.michigan.gov/documents/taxes/2016RetirementAndPensionBenefitsChart_544015_7.pdf