

Governor Whitmer signs legislation phasing out retirement tax and raising working families tax credit

Michigan Governor Gretchen Whitmer signed legislation on March 7, 2023, that will do the following:

- Phase out the state's "retirement tax" over four years
- Equalize the exemption on both public and private pensions
- Quintuple the Michigan Working Families Tax Credit match of the federal Earned Income Tax Credit to 30%, from the current 6%.

For the 2022 tax year only, a taxpayer that claims a Working Families Tax Credit is entitled to an additional credit in an amount equal to 24% of the credit the taxpayer is allowed to under the federal EITC.

Retirement and Pension Income

The bill allows a taxpayer, beginning in the 2023 tax year, to choose between the current limitations on the deductibility of retirement and pension income or the limitations specified in the bill.

Under the bill, a taxpayer may elect to deduct retirement or pension benefits as follows:

- 2023: a taxpayer who was born after 1945 and before 1959 may deduct an amount of retirement or pension benefits not to exceed 25% of the maximum amount of retirement or pension benefits that the taxpayer would be allowed to deduct for the tax year under Mich. Comp. Laws



For a joint return, the limitations and restrictions are applied based on the date of birth of the older spouse filing the joint return. Currently the maximum allowable deduction is \$56,961 for single and \$113,922 for joint filers.

- 2024: a taxpayer who was born after 1945 and before 1963 may deduct an amount of retirement or pension benefits not to exceed 50%
- 2025: a taxpayer who was born after 1945 and before 1967 may deduct an amount of retirement or pension benefits not to exceed 75%
- 2026 and each year after: a taxpayer may deduct 100% of the retirement or pension benefits as provided under Mich. Comp. Law



Law Enforcement & Fire Department Workers

For tax years beginning on and after January 1, 2023, in determining taxable income, a taxpayer with retirement or pension benefits received for services as a public police or fire department employee, a state police trooper or state police sergeant, or a corrections officer employed by a county sheriff in a county jail, work camp, or other facility maintained by a county that houses adult prisoners may elect to deduct retirement or pension benefits as provided under Mich. Comp. Laws Ann. §206.30(1)(f) without any additional limitations or restrictions or elect to apply the limitations and restrictions in Mich. Comp. Laws Ann. §206.30(9) or the new provisions explained herein.

Working Families Tax Credit Increase

The bill increases from 6% to 30% the Earned Income Tax Credit, beginning with the 2023 tax year, and specifies that for the 2022 tax year only, a taxpayer that claims a Working Families Tax Credit is entitled to an additional credit in an amount equal to 24% of the credit the taxpayer is allowed to under the federal EITC. The Michigan Department of Treasury will calculate the amount of the additional credit that each taxpayer is entitled to receive and must refund the amount of the additional credit as soon as practical. The Department must issue any refund under this provision to the taxpayer in the form of a fully negotiable check.



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