

Legislative Analysis



RETIREMENT INCOME DEDUCTION FOR SURVIVING SPOUSE

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4171 (H-1) as reported from committee
Sponsor: Rep. Julie Alexander
1st Committee: Tax Policy
2nd Committee: Ways and Means
Complete to 10-31-19

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

(Enacted as Public Act 65 of 2020)

BRIEF SUMMARY: House Bill 4171 would amend the Income Tax Act to allow certain widows and widowers to claim certain tax deductions allowed in the act that would have applied to their late spouses if they were still alive.

FISCAL IMPACT: As written, the bill would reduce gross income tax revenue by an unknown amount. Because the impact depends on the specific characteristics of individual taxpayers (such as age, marital status, and source and size of retirement income), it is not possible to determine a precise estimate since these factors cannot be known in advance. Roughly 22.45% of gross income tax revenue accrues to the School Aid Fund; the remaining revenue reduction would be borne by the general fund.

THE APPARENT PROBLEM:

The act currently allows for the deduction of a number of sources of retirement income from income subject to the tax, including pensions and Social Security. For a joint return, the limitations and restrictions in determining taxable income are applied based on the date of birth of the older spouse filing the return. As a result, if the older spouse passes away before the younger, the surviving spouse often loses the retirement income deduction that his or her spouse had, thus adding additional financial burden after the tragedy of losing their spouse. Legislation has been proposed to allow the deduction to be claimed as though the deceased spouse were still alive.

THE CONTENT OF THE BILL:

House Bill 4171 would amend the Income Tax Act to allow certain widows and widowers to claim certain tax deductions allowed in the act that would have applied to their late spouses if they were still alive.

The act currently allows for the deduction of a number of sources of retirement income from income subject to the tax, including pensions and Social Security. For a joint return, the limitations and restrictions in determining taxable income are applied based on the date of birth of the older spouse filing the return.

Under the bill, if a deduction of retirement income as allowed under the act had been claimed on a joint return for a tax year before the death of a spouse, and the surviving spouse had not remarried, the surviving spouse could claim that deduction in subsequent

tax years for a single return subject to the restrictions and limitations that would have applied based on the date of birth of the older of the two spouses. For tax years beginning after December 31, 2019, a surviving spouse born after 1945 who is at least 67 and has not remarried since the death of that spouse could choose to take the deduction that is available against all types of income subject to the same limitations and restrictions as provided under the act based on the surviving spouse's date of birth instead of taking the deduction of retirement income, for a single return, based on the date of birth of the older spouse.

MCL 206.30

POSITIONS:

The following organizations indicated support for the bill (10-16-19):

AARP

Michigan State Employee Retirees Association (MI-SERA)

Retired Detroit Police and Fire Fighters Association

The Department of Treasury indicated a neutral position on the bill. (10-16-19)

Legislative Analyst: Nick Kelly
Fiscal Analyst: Jim Stansell

■ 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.