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# City of Detroit

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TO: COUNCIL MEMBERS  
FROM: David Whitaker, Director  
Legislative Policy Division Staff  
DATE: February 4, 2019  
RE: A Review of Pension Tax Policy

In addition to requesting that the Legislative Policy Division draft a resolution to urge democratic Governor Gretchen Whitmer to collaborate with the state legislature in order to eliminate the state of Michigan's taxation on non-exempt pension income, Council President Jones has also asked for LPD to provide a report that lists the states that do not tax pension income and to review the retirement tax policies in those states.

Given the influx of fiscally conservative Governors and legislatures in charge throughout the country in the past few years, there are now only nine states that do not tax pension income, Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming, Tennessee and New Hampshire. The last two on the list, however, both Tennessee and New Hampshire do charge tax on dividend and interest income earned through investments, even if these earnings are obtained by retirees. Therefore, there are only seven states that do not tax retirement benefits at all.<sup>1</sup>

The state of Michigan has taxed pension income since former republican Gov. Rick Snyder overhauled the state tax laws in 2011.<sup>2</sup> The law initiated by Governor Snyder eliminated the state's tax exemption for pension income and repealed the Michigan Business Tax for most businesses in favor of a flat corporate income tax, thereby, taxing low income seniors on fixed incomes to provide a tax benefits for large corporations (a reverse Robin Hood scenario).<sup>3</sup>

<sup>1</sup> 7 States That Do Not Tax Retirement Income By Gaurav Sharma, BA, June 26, 2017

<https://www.incomeinvestors.com/7-states-not-tax-retirement-income/22910/>

<sup>2</sup> <https://www.lansingstatejournal.com/story/news/local/2019/01/10/michigan-pension-tax-repeal-again-proposed-legislature/2527922002/>

<sup>3</sup> On May 25, 2011, Governor Snyder signed House Bill (HB) 4361 into law as Public Act (PA) 38 of 2011 and initiated arguably the most substantial changes in the Michigan individual income tax since its establishment in 1967. <http://www.senate.michigan.gov/sfa/Publications/Notes/2011Notes/NotesSum11dz.pdf>

A summary of the policies of the non-taxing pension states and Michigan are as follows:

| STATE           | TAX ON PENSIONS | TAX ON SOCIAL SECURITY | TAX ON DIVIDEND & INTEREST INCOME   |
|-----------------|-----------------|------------------------|---|
| Alaska          | no              | no                     | no  |
| Florida         | no              | no                     | no  |
| Nevada          | no              | no                     | no  |
| South Dakota    | no              | no                     | no  |
| Texas           | no              | no                     | no  |
| Washington      | no              | no                     | no  |
| Wyoming         | no              | no                     | no  |
| Tennessee       | no              | no                     | Yes, but it will be reducing its five-percent tax on dividend income by one percent annually (Eliminated by 2022) |
| New Hampshire   | no              | no                     | Yes - A \$1,200 exemption is available for residents 65 or older for taxable dividends and interest.              |
| <b>Michigan</b> | <b>yes</b>      | <b>no</b>              | <b>no</b>   |

*Source of data: Kiplinger: State-by-State Guide to Taxes on Retirees, November 2018*

Currently, Michigan House Representative Joseph Bellino (R), has submitted House Bill 4006 for consideration and if passed as proposed, it would restore the Michigan exemptions to retirement income including pensions, IRAs and 401(k) accounts from being taxed by the State of Michigan. At the request of President Jones, LPD has drafted a resolution in support of this legislation (House Bill 4006) under a separate cover.

Please contact us if we can be of any further assistance.