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401(K) DISTRIBUTIONS

House Bill 5106

Sponsor: Rep. Jim Howell

Committee: Tax Policy

Complete to 4-21-00

A SUMMARY OF HOUSE BILL 5106 AS INTRODUCED 11-9-00

Currently, under the Income Tax Act, taxpayers may deduct certain retirement and pension benefits when calculating taxable income for purposes of the state income tax. (All pension benefits from state, federal, and local public retirement systems are deductible.) Among other things, the act says a taxpayer can deduct distributions from a 401(k) plan attributable to employer contributions or attributable to employee contributions to the extent they result in matching contributions by the employer. Other distributions from 401(k) plans apparently are not deductible. In particular, the act says a taxpayer cannot deduct amounts received from a deferred compensation plan that lets the employee determine the amount to be put aside and does not set a retirement age or requirements for years of service.

House Bill 5106 would amend those provisions to say that distributions from a 401(k) plan could be deducted when calculating taxable income. The existing 401(k) provisions specifying which distributions can be deducted and which cannot be deducted would be deleted.

[A taxpayer can deduct up to \$34,170 for a single filer or \$68,340 for joint filers in private “retirement and pension benefits.” However, those amounts must be reduced by the amount of public retirement benefits received. The term “retirement and pension benefits” is defined in the act: it includes some 401(k) distributions and excludes others. The bill addresses that definition as it applies to 401(k) distributions. The deduction amounts cited are for the 1999 tax year; they are adjusted for inflation annually.]

MCL 206.30

Analyst: C. Couch

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