

DEDUCTION OF STATE CORRECTION OFFICER RETIREMENT BENEFITS

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House Bill 4201 (H-3) as reported from committee
Sponsor: Rep. Kathy Schmaltz
Committee: Finance
Complete to 4-23-25

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

SUMMARY:

House Bill 4201 would amend the Income Tax Act to allow taxpayers to deduct retirement and pension benefits for state corrections officers without being subject to the restrictions placed on other retirement income.

Public Act 4 of 2023,¹ which amended the deductions allowed for retirement income, provided that retirement and pension benefits for several other public safety employees would be deductible for state income tax purposes and not subject to the limitations on other retirement income deductions.

The bill would add state corrections officers to those who are able to deduct retirement and pension benefits without restriction and would state that its provisions apply retroactively to the 2023 tax year and all subsequent tax years.

MCL 206.30

BRIEF DISCUSSION:

According to committee testimony, most pensions for public safety workers are already exempt from state income tax. The bill is intended to include state correction workers in these existing exemptions.

Supporters of the bill contended that it would help with issues the Department of Corrections has had with retaining staff.

FISCAL IMPACT:

The bill would reduce individual income tax revenue by an unknown, but likely small, amount. Because of the way the treatment of retirement income is phased in under 2023 PA 4, the revenue impact would decrease over time, with the largest revenue loss occurring for tax year 2023.

To the extent that the bill reduces gross income tax revenue (i.e., revenue before refunds), approximately 25% of the reduction would come at the expense of the School Aid Fund,

¹ <http://legislature.mi.gov/doc.aspx?2023-HB-4001>

with the remainder reducing general fund revenue. If the bill increases refunds due to refiling under the retroactive provisions of the bill, the revenue impact would be borne by the general fund.

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