

May 11, 2011

TO: Senate Committee on Reforms, Restructuring and Reinventing  
Honorable Senator Jansen, Chair  
Senators Colbeck, Casperson, Kowall, Robertson, Young and Warren

FROM: Kay Duncan, State of Michigan, DEQ Retiree  
5826 Green Road, Haslett, Michigan (DUNCANKL@ATT.NET)  
517-339-9901

SUBJECT: HB HB-4631 HB-4362 HB-4479 HB-4480 HB-4481 HB-4482 HB-4483 HB-4484  
Regarding: Taxing Pensions

I attended today's Committee Hearing. You did a fine job listening to testimony and fielding pertinent questions. Below is my written testimony regarding HB4361/4480 and proposal to tax pensions.

Personal overview:

I retired in 2002 on early out. I was 50 years old then and a Senior Executive Asst. to Michigan's State Geologist and making \$48,000/yr. I could not retire without a supplement to my pension. I saved in my Deferred Compensation Plan since 1975. I take an annual draw from my 457 annually and pay federal and state taxes on this money.

For me retiring was a hard decision because I was young, and I reviewed and evaluated all financial factors. Mandating a state income tax on my pension at this late date is like getting married before you even dated. I needed to calculate a tax into the big picture back when I was considering to retire. Not ....many years later. I am in the group of "75 percent with a net pay of \$24,000."

My pension will hardly pay for a new car I will need soon. I care for my elderly mother who lives 3 hours away from me. Same story for all retirees, we are on a fixed income; gas has doubled, our health premium has doubled since I retired, and co-pays have been increasing. These expenses cause us to re-evaluate our priorities and make budgets to live by. When you are working and a big expense comes along, you just account for it. Retirement changes your buying power.

What exactly isn't Fair?

I was told and understood the State Constitution protected my retirement from state and local taxation. Today at the hearing, **equality and fairness for all** was of concern.

What type of pensions in Michigan are currently taxed? Presently, in 18 states including Michigan, government pensions are free from state and local tax; and the same goes for private pensions under \$42,000 annually. Defined Contribution Plans matched by employer's funds are free from state tax thus far, to my knowledge. Is it the younger generation who are paying into 401K plans or similar and their contributions are not being matched by employer funds? This would be an example whereby a 401K or similar plan that would be state taxed at time of withdrawal. I think Senator Colbeck questioned the fairness of people being taxed should be shared by all. The present system seems fair unless my understanding is incorrect.

Many states do not have a sales or income tax. Since I'm a snowbird, it seems rather inviting for me to consider moving to Florida or change my residency. In Florida, my 457 deferred compensation draw and state pension would be free from local and state taxes.

I would ask that you please reconsider and exclude the state taxation of pensions in these proposed bills. I fully understand your responsibilities to address a large budget deficit and to reform the Michigan Business Tax, which has been broken for many years. However, I ask that you not change and fix the Corporate and Business Tax in Michigan at the expense of eliminating the homestead tax, taking away the \$2,300 exemption for the senior, which affects my mother; eliminate the dividends, interest, and capital gains, and lastly by taxing our pensions.

Logistics:

How do I evaluate the impact the tax would have on my monthly pension net amount? The proposed language in HB4361 does not specify the logistics of how the pension taxation would be done. For example: for those entitled to the \$20,000/40,000 exemption, how or when do we claim this? Surely, it is not fair for you tax me monthly the current Michigan Income Tax and require taxpayer to file at tax time for the \$20,000 exemption. I would ask that this be clarified in the legislation. It is unclear to me based on the proposed language, how one would calculate the monthly cost given the exemption is more than many longtime retirees annual pension.

My interpretation of the State Constitution language in Article IX, Sec. 24 is that the Key Words, ... **diminished or impaired**, mean no one except the voters can "cause to make less or cause to seem smaller, lessen; reduce, or diminish in quantity, or value" our pensions. Taxing our pension, would indeed cause to make the amount I get to spend each month in my pension check a smaller amount. State Taxing of my pension would cause me to take home less money even taking into account the \$20,000 exemption. It is my belief this pension taxation at the state level is unconstitutional.

For the group of newly retired folks born after 1952. The HB language implies their social security would be taxed if they take the \$20,000/40,000 exemption. This simply seems unfair. The language was a bit convoluted. Three of my four siblings moved out of state years ago because of the job market as were businesses moving their operations out of Michigan because of the tax structure. Let's not start losing our residents because of a poorly thought-out Income Tax Structure. It appears our Legislature and Governor is attempting to fix a budget deficit and MBT problem at the expense of eliminating all worthy income tax deductions in the State of Michigan.

I have read all of the Governor's speeches and his State of State Address. I think he has some excellent ideas and given sincere foresight into helping our great state again succeed and become economically sustainable. However, the idea of taxing pensions at the state level must be removed from these bills. It is not a sound decision and apparently not legal unless brought before the voters.

Senators, as members of this Committee; you pledged and are obligated to represent the citizens of this great State of Michigan. I'm very proud to be a Michiganiaian all my life. I ask you all to please make wise, sound, the best possible decisions as you revamp the Michigan Income and Business Tax. Thank you for your time.