STATE AND FEDERAL TAX UPDATE

Michigan taxpayers have enjoyed a relatively low income tax structure for the last 20 years. Elimination of the inheritance and intangible taxes, the exclusion of pension income, and overall drop in the flat tax rate have made Michigan an attractive state in which to live, work, and retire.

Governor Snyder, with his balanced budget initiative, has many Michigan taxpayers worried that this will soon change. Faced with a budget deficit of $1.5 billion for 2011-12, Michigan leadership was forced to either find ways to cut spending or increase revenues to close the gap. Tough decisions were made on shifting some of the tax burden from small business owners and jobs providers (under the recently repealed Michigan Business Tax) to a flat 6% tax on corporate profits, effectively eliminating double taxation on self-employed business owners, LLC Partnerships and other individually owned business activities. Most business credits were eliminated under the new tax structure, but those such as Film Production, Brownfields and other economic stimulus programs were allowed to continue for agreements already in effect.

There has been much concern by retirees regarding the inclusion of pension income in the state income tax calculation, but it is now clear that taxpayers born before 1946 will still be exempt. The personal exemption amount will remain at $3,700, but will be fully phased out for higher income taxpayers (married couples with over $200,000 of household income). An additional exemption of $1800 per taxpayer and dependents who are deaf, blind or permanently disabled will continue, however the additional exemptions for taxpayers age 65 and older and children under the age of 19, are eliminated under the new law. Earned income credit will be retained at 6 percent of the federal credit amount (from 20 percent). Exempted pension limits will differ, based on year of birth of the individual, with military pensions continuing to be fully exempt from state taxation.

Social Security will still be exempt in most cases, but with those taxpayers born after 1952, certain limitations on combined pension/IRA/Social Security exclusions will apply. Combined Social Security/Pension/IRA income for a married couple (over age 59 but not yet 67) in excess of $40,000 will be taxable. Popular nonrefundable tax credits such as Public Contribution, Homeless Shelter/Food Bank and Community Foundation contributions will be eliminated. Also discontinued will be the College Tuition credit and deduction of retirement income used to pay qualified higher education expenses. The Homestead Property tax credit will no longer be available to taxpayers with household income in excess of $50,000 or taxable home values of more than $135,000.

Now that we've scratched the surface on changes at the state taxation level, lets recap federal tax highlights for the 2011 filing year.

Most of the reinstated tax rates and rules will apply through 2012. Personal income tax rates (10% to 35%), long-term capital gains rates (0% to 15%), and relief from Alternative Minimum Tax, and " marriage penalty" appear to be untouched until after 2012. Increased education credits, exemption phase-outs, and deduction of student loan interest and qualified tuition and related expenses also appear safe to stay in tax law for 2011 and 2012. The one year cut of Social Security tax on wages from

6.2% to 4.2% will be gone as of January 1, 2012, unless Congress acts to extend this personal "tax holiday", which saves a married couple (making $100,000) $2,000 in payroll withholding from their 2011 wages.

The Estate tax had garnered much attention since its total repeal in 2010, and was set to be fully reinstated for 2011, until late action by Congress resulted in the extension of higher estate exemptions ($5 to $10 million) and lower top rate of 35% (from 45%).

The intent of this article is to explain what we know the tax laws are at this time. We can only hope that positive legislation and economic recovery will continue to make Michigan the best place to live, work and retire!