

Dawson,

I've attached a Word document in which I discuss a huge hole in Michigan's Individual Income Tax. Patching it would solve the state's budget problems. I'd like you to do a story on it.

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Dawson,

I've made a discovery about Michigan's Individual Income Tax. Over \$76 billion is escaping taxation. That was in 2005, the most recent year for which complete figures are available. If that \$76 billion had been taxed, it would have generated about \$2.8 billion in revenue. Total revenue from the income tax in 2005 was \$5.3 billion.

The income not being taxed is the "subtractions from income" from MI-1040 [Schedule 1](#). They are "subtractions" because they are included in the adjusted gross income (AGI) from your federal income tax return, which is the base amount for the state return (line 10 on the [MI-1040](#)). There are 12 subtractions (the numbers are the line numbers from Schedule 1):

8. Income from U.S. government bonds and other U.S. obligations
9. Military pay from U.S. Armed Forces
10. Gains from federal column of Michigan MI-1040D and MI-4797
11. Income attributable to another state
12. Retirement or pension benefits
13. Dividend/interest/capital gains deduction for senior citizens
14. Social Security benefits
15. Income earned while a resident of a renaissance zone
16. Michigan state and local income tax refunds received in 2006
17. Michigan Education Savings Program
18. Michigan Education Trust
19. Miscellaneous

Detailed explanations of each of the subtractions are in the [instructions](#) for Schedule 1.

I have no problem with some of these subtractions. Number 11, Income attributable to another state, makes sense if that income is already being taxed by the other state. And 15-18 and some of 19 are exemptions designed for specific public purposes. I might also

be OK with #10 if I understood it. But the others are just ordinary types of income that the Feds consider taxable. There is no reason to believe that people receiving these types of income would suffer hardship if taxed. Take me, for example.

My wife and I are retired and our only income is from Social Security and pensions. These are the figures for the 2006 tax year:

Source	Gross Distribution	Taxable Amount
Steve's Social Security	14,980.00	7,295.00
Steve's MERS pension	11,349.36	10,779.00
Steve's state pension	14,261.64	13,904.04
Carol's school pension	14,348.16	13,136.52
Total:	54,939.16	45,114.56

That "taxable amount" is for federal tax purposes. Our federal tax for 2006 was \$3009. Our state tax was zero. Actually, we got a \$530 "refund", which was our homestead property tax credit. Although our gross income was \$54,939.16, the State paid *us*. If our pensions and Social Security had been taxable to the extent they are for the federal tax, we would have had to pay \$972 ($\$45,115 - \$6600 = \$38,515 \times 3.9\% = \$1502 - \$530 = \972 .)

There is no reason for pensions to be exempt. They are just a form of wages – a delayed payment of wages. Part of the pension comes from contributions made to the pension fund by the employee, and if those contributions were made from after-tax wages, that part should not be taxed again. The "taxable amount" is the part that has never been taxed.

I'd be happy to pay state income tax on my pensions and Social Security. My net from pensions is more than my take home pay when I was working. A lot of pension recipients get bigger pensions than I do. John Engler probably gets a nice tax-free state pension. Former state legislators – if they are old enough - get tax-free pensions, which is probably why pensions are tax-free. All those state and city employees and teachers who got early retirement bonuses receive tax-free pensions. I would guess that a big chunk of the personal income in this state is from pensions and Social Security. When Michigan is having such a terrible time balancing the state budget, it is outrageous that so much taxable income is going untouched. It is unfair to the poor suckers who have to work for a living.

I said at the beginning that \$76 billion went untaxed in 2005. How much of that was from pensions and Social Security is unknown. Not even Treasury knows. You would *think* they'd know, since the 12 subtractions are itemized on [Schedule 1](#). But *no*. I asked for the totals in a Freedom of Information Act request and they replied saying that "a document containing the figures you requested does not exist in the department." They did tell me that total subtractions for 2005 were \$76,214,000,000. I don't know why they would lie to me about the availability of the totals for individual subtractions, but it is hard to believe they would collect the data and not compile it. When they've got \$76 billion of

potentially taxable income, you'd think they'd want a little more detail. Yet in a report of state "[tax expenditures](#)" on their website, the subtractions are discussed (page 54), but no breakdown is given.

If you don't think you will do a story on this, let me know and I will see if I can peddle it elsewhere. The reason I got interested in this is that I am thinking of running for state representative next year and I have been doing a little research on state issues.

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