

April 5, 2009

Dear Mom,

I thought you might be interested in the letter I had published in the Lansing State Journal today. The headline was "Michigan, end tax exemption for pensioners":

Paul Roney (Forum, Jan. 25) said it's time for Michigan to start taxing pensions. I agree.

I pay no state income tax, and I think it is outrageous. In 2008, my wife and I had adjusted gross income totaling \$51,098 consisting of interest and the taxable portion of our pensions and Social Security. We had to pay \$3,866 in federal taxes, but since pensions and Social Security are exempt from Michigan's income tax, we paid no state tax. In fact, the state paid us \$900, our homestead property tax credit.

Nor did we pay city taxes. Pensions and Social Security are exempt from city taxes, too. But don't blame the city of Lansing. City income tax rules are imposed by the state.

Now let's look at someone less favored by our Legislature.

Let's imagine a single woman with two children whose only income is from her \$15 an hour job. Her total income for 2008 is \$31,200. With her \$8,000 head of household standard deduction, \$10,500 in exemptions ($\$3,500 \times 3$), \$2,000 child tax credit and \$1,563 earned income tax credit, she owes no federal income tax. Instead, she gets a \$2,227 refund.

But her state income tax is \$336 and her city of Lansing tax is \$294.

So the single mother with a full-time job paying \$31,200 gets stuck with a total tax bill from state and city of \$630 while my wife and I - comfortably retired with an income of \$51,098 - pay no state and city tax at all. The state pays us \$900.

The state needs to fix this inequity by taxing all types of income considered taxable by the federal government.

Back in 1967, when the state income tax was enacted, the only exempt income was military pay. Taxing all income would generate a lot of revenue at a time when it is really needed - close to \$2 billion, by my estimate. And if the state doesn't need all the revenue, it could lower the income tax rate.

There are a couple people in the area who agree with me, but probably not enough to start a movement.