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Death & Taxes

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Benjamin Franklin reportedly wrote in a 1789 letter “In this world nothing can be said to be certain except death and taxes.” I’d like to add another certainty: government will forever be messing around with your taxes.

Michigan taxpayers will face some changes beginning in the 2012 tax year. While the actual tax rate will go down (from 4.35% to 4.25%) many exemptions and credits will be reduced or eliminated.

One of more controversial changes is how pensions will be taxed (not including social security and military pensions). This change is projected to increase revenues by \$343 million per year. How this change will affect individual retirees depends on when they were born and whether or not a court challenge to the change is successful. Stay tuned.

Another change is the phase out of the personal exemption (\$3,700). The personal exemption will be phased out for taxpayers filing a single return earning between \$75,000 and \$100,000 and for taxpayers filing joint returns earning between \$150,000 and \$200,000. This change is projected to raise \$84 million.

The Michigan Homestead Property Tax Credit and Michigan Earned Income Tax Credit will also be reduced. The Homestead Property Tax Credit will be phased out for taxpayers earning between \$41,000 and \$50,000. Further, taxpayers with homes worth more than \$135,000 would not qualify for the credit regardless of income. The Michigan Earned Income Tax Credit will be reduced from 20% of the Federal Earned Income Tax Credit to 4%, which will reduce the average credit from \$430 to \$143. The projected increase in revenue from these two changes is \$533 million.

There are several smaller changes including the elimination of the \$600 per child tax deduction, the adoption cost credit, and the ability to take a credit for city income taxes and donations to public broadcasting, universities, homeless shelters, food banks and community foundations. These changes are projected to increase revenues by \$90 million.

It goes without saying that each of these changes will make some group unhappy. When we attorneys settle cases, a settlement is deemed to be a good one if no one is happy about it, but everyone can tolerate it. Whether the changes to Michigan’s tax laws will be deemed good, because no one is happy about them but everyone can tolerate them, remains to be seen.