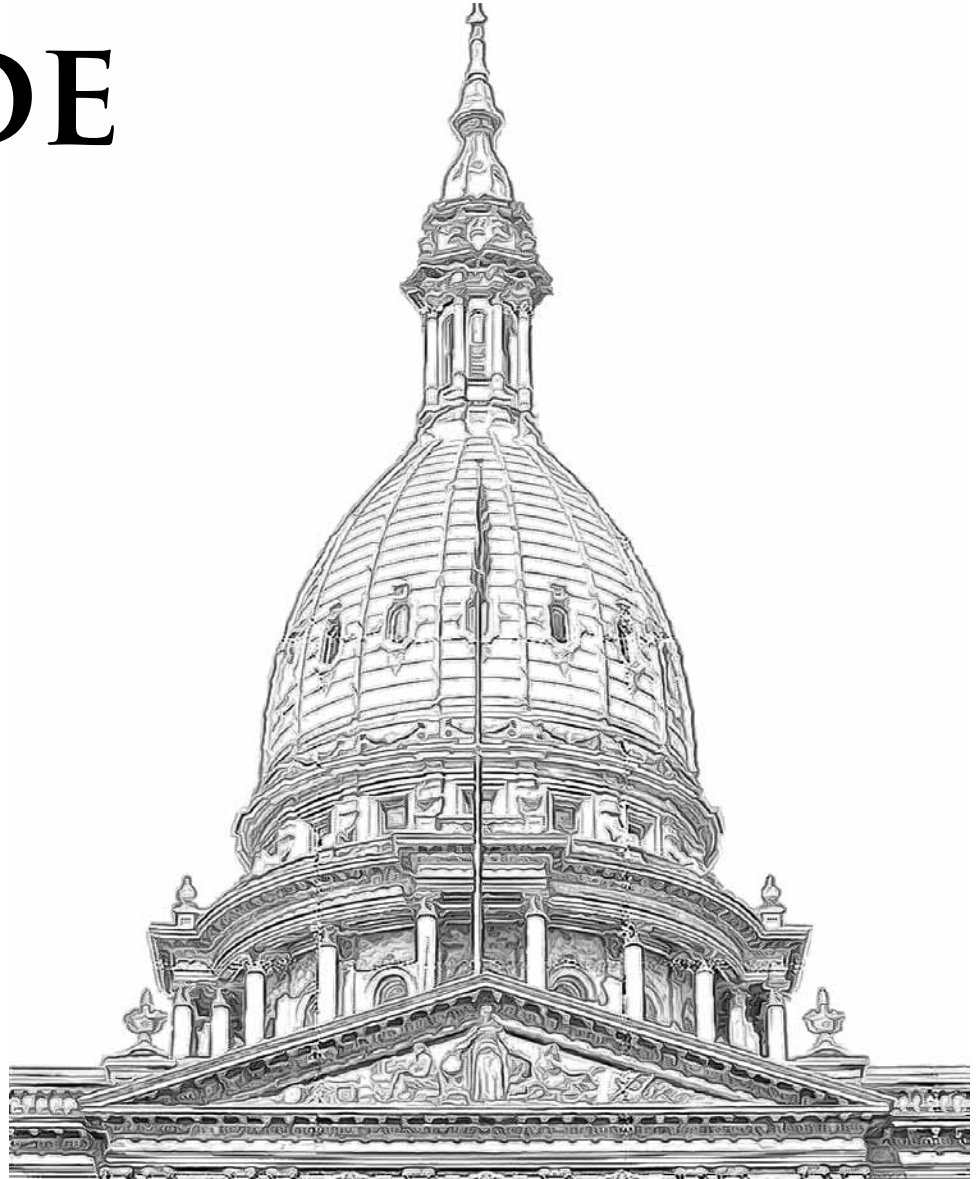


# 2012 PENSION WITHHOLDING GUIDE



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## Introduction

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Effective January 1, 2012, Michigan's tax treatment of pension and retirement benefits will change and these benefits will be subject to income tax for many recipients. Michigan law now requires the administrators of pension and retirement benefits to withhold income tax on payments that will be subject to tax.

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## What are Pension and Retirement Benefits

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Under Michigan law, qualifying pension and retirement benefits include most payments that are reported on a 1099-R for federal tax purposes. This includes defined benefit pensions, IRA distributions, and most payments from defined contribution plans. Payments received before the recipient could retire under the provisions of the plan or benefits from 401(k), 457, or 403(b) plans attributable to employee contributions alone are not pension and retirement benefits under Michigan law. For additional information on pension and retirement benefits, visit [www.michigan.gov/withholding](http://www.michigan.gov/withholding)

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## Which Benefits are Taxable

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Beginning in 2012, pension and retirement benefits will be taxed differently depending on the age of the recipient. For couples, age is determined using the age of the older spouse.

Military pensions, Social Security benefits and railroad retirement benefits continue to be exempt from tax.

No tax exemption applies to premature distributions or payments from 457 plans, 401(k) plans, 403(b) plans or any other elective deferral plans if only the employee made contributions to the plan and are fully taxable regardless of the age of the recipient.

For recipients born before 1946, the law remains the same as it was prior to 2012. Those born before 1946 may subtract all qualifying pension and retirement benefits received from public sources, and may subtract private pension and retirement benefits up to \$45,842 if single or married filing separate, or \$91,684 if married filing a joint return. Withholding will only be necessary on taxable pension payments (private pension payments) that exceed the pension limits stated above for recipients born before 1946.

Recipients born between 1946 and 1952 will be able to deduct \$20,000 in pension and retirement benefits if single or married filing separate or \$40,000 if married filing a joint return. Withholding is required unless the recipient submits an MI W-4P. The pension tax withholding tables included in this booklet incorporate the deductions of \$20,000 for single or married filing separate, and \$40,000 married filing a joint return, assuming benefits are paid monthly. If benefits are paid other than monthly, withholding is only due on the amount that exceeds the recipients' deduction amount. Recipients who indicate on the MI W-4P they are married (withhold as single) should have withholding computed as if they are single.

For recipients born after 1952, all pension and retirement benefits are taxable. Use the monthly

withholding table from the *Michigan Income Tax Withholding Guide* (Form 446) to calculate the appropriate withholding based on the number of personal exemptions claimed on the MI W-4P.

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## How Much to Withhold

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Withholding is required on taxable pension benefits. Pension administrators should follow the directions from recipients on any MI W-4P received.

If you received a MI W-4P from a recipient who has checked box 3, determine the amount of tax withheld using the direct percentage computation or the withholding tables in this book. The withholding rate is 4.35 percent of any taxable pension or retirement benefit. The taxable portion is determined by subtracting any pension deduction and personal exemption allowance. If you prefer to compute withholding directly, refer to the Withholding Formula section below.

In the absence of an MI W-4P, pension administrators shall do one of the following:

- (1) Do not withhold on benefits paid to recipients born before 1946 unless the benefits exceed private pension limits.
- (2) If the recipient was born in 1946 or after, withhold on all taxable pension distributions at 4.35 percent.

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## Monthly Non-Taxable Deduction Amounts

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Single recipient pension deduction.....	\$1,666.67
Married recipient pension deduction.....	\$3,333.33
Personal exemption allowance .....	\$308.33

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## Withholding Formula

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Withholding = [Pension or Retirement Payment subject to federal income tax – Monthly pension deduction – (Allowance per Exemption x Number of Exemptions)] x 4.35%

**Example 1:** A single retiree age 64 (born in 1948) receiving \$2,100/month with 1 exemption would have the following withholding:

$$[\$2,100 - \$1,666.67 - (\$308.33 \times 1)] \times 4.35\% = (\$2,100 - \$1,666.67 - \$308.33) \times 0.0435 = \$5.44$$

**Example 2:** A married retiree age 61 (born in 1951) receiving \$4,500/month with 2 exemptions would have the following withholding:

$$[\$4,500 - \$3,333.33 - (\$308.33 \times 2)] \times 4.35\% = [\$4,500 - \$3,333.33 - \$616.66] \times 4.35\% = \$23.93$$

**Example 3:** A married retiree age 59 (born in 1953) receiving \$2,000/month with 2 exemptions would have the following withholding:

$$[\$2,000 - (\$308.33 \times 2)] \times 4.35\% = [\$2,000 - \$616.66] \times 4.35\% = \$60.18$$

Michigan Income Tax Withholding Tables  
 Monthly Pension and Retirement Payments for **Single Recipients Born Between 1946 and 1952**

If payment is		and the number of withholding exemptions claimed is						
at least	but less than	0	1	2	3	4	5	6
		the amount of income tax withheld is						
	\$1,650	\$0.00						
\$1,650	\$1,700	\$0.35						
\$1,700	\$1,750	\$2.52						
\$1,750	\$1,800	\$4.70						
\$1,800	\$1,850	\$6.87						
\$1,850	\$1,900	\$9.05						
\$1,900	\$1,950	\$11.22						
\$1,950	\$2,000	\$13.40	\$0.00					
\$2,000	\$2,050	\$15.57	\$2.18					
\$2,050	\$2,100	\$17.75	\$4.35					
\$2,100	\$2,150	\$19.92	\$6.53					
\$2,150	\$2,200	\$22.10	\$8.70					
\$2,200	\$2,250	\$24.27	\$10.88					
\$2,250	\$2,300	\$26.45	\$13.05					
\$2,300	\$2,350	\$28.62	\$15.23	\$1.83				
\$2,350	\$2,400	\$30.80	\$17.40	\$4.00				
\$2,400	\$2,450	\$32.97	\$19.58	\$6.18				
\$2,450	\$2,500	\$35.15	\$21.75	\$8.35				
\$2,500	\$2,550	\$37.32	\$23.93	\$10.53				
\$2,550	\$2,600	\$39.50	\$26.10	\$12.70				
\$2,600	\$2,650	\$41.67	\$28.28	\$14.88	\$1.44			
\$2,650	\$2,700	\$43.85	\$30.45	\$17.05	\$3.61			
\$2,700	\$2,750	\$46.02	\$32.63	\$19.23	\$5.79			
\$2,750	\$2,800	\$48.20	\$34.80	\$21.40	\$7.96			
\$2,800	\$2,850	\$50.37	\$36.98	\$23.58	\$10.14			
\$2,850	\$2,900	\$52.55	\$39.15	\$25.75	\$12.31			
\$2,900	\$2,950	\$54.72	\$41.33	\$27.93	\$14.49	\$1.09		
\$2,950	\$3,000	\$56.90	\$43.50	\$30.10	\$16.66	\$3.26		
\$3,000	\$3,050	\$59.07	\$45.68	\$32.28	\$18.84	\$5.44		
\$3,050	\$3,100	\$61.25	\$47.85	\$34.45	\$21.01	\$7.61		
\$3,100	\$3,150	\$63.42	\$50.03	\$36.63	\$23.19	\$9.79		
\$3,150	\$3,200	\$65.60	\$52.20	\$38.80	\$25.36	\$11.96		
\$3,200	\$3,250	\$67.77	\$54.38	\$40.98	\$27.54	\$14.14	\$0.74	
\$3,250	\$3,300	\$69.95	\$56.55	\$43.15	\$29.71	\$16.31	\$2.91	
\$3,300	\$3,350	\$72.12	\$58.73	\$45.33	\$31.89	\$18.49	\$5.09	
\$3,350	\$3,400	\$74.30	\$60.90	\$47.50	\$34.06	\$20.66	\$7.26	
\$3,400	\$3,450	\$76.47	\$63.08	\$49.68	\$36.24	\$22.84	\$9.44	
\$3,450	\$3,500	\$78.65	\$65.25	\$51.85	\$38.41	\$25.01	\$11.61	
\$3,500	\$3,550	\$80.82	\$67.43	\$54.03	\$40.59	\$27.19	\$13.79	\$0.35
\$3,550	\$3,600	\$83.00	\$69.60	\$56.20	\$42.76	\$29.36	\$15.96	\$2.52
\$3,600	\$3,650	\$85.17	\$71.78	\$58.38	\$44.94	\$31.54	\$18.14	\$4.70
\$3,650	\$3,700	\$87.35	\$73.95	\$60.55	\$47.11	\$33.71	\$20.31	\$6.87
\$3,700	\$3,750	\$89.52	\$76.13	\$62.73	\$49.29	\$35.89	\$22.49	\$9.05
\$3,750	\$3,800	\$91.70	\$78.30	\$64.90	\$51.46	\$38.06	\$24.66	\$11.22
\$3,800	\$3,850	\$93.87	\$80.48	\$67.08	\$53.64	\$40.24	\$26.84	\$13.40
\$3,850	\$3,900	\$96.05	\$82.65	\$69.25	\$55.81	\$42.41	\$29.01	\$15.57
\$3,900	\$3,950	\$98.22	\$84.83	\$71.43	\$57.99	\$44.59	\$31.19	\$17.75
\$3,950	\$4,000	\$100.40	\$87.00	\$73.60	\$60.16	\$46.76	\$33.36	\$19.92
				4.35% of excess over \$4,000 plus				
\$4,000 and over		\$101.49	\$88.09	\$74.69	\$61.25	\$47.85	\$34.45	\$21.01

Michigan Income Tax Withholding Tables  
 Monthly Pension and Retirement Payments for **Married** Recipients **Born Between 1946 and 1952**

If payment is		and the number of withholding exemptions claimed is							
at least	but less than	0	1	2	3	4	5	6	
		the amount of income tax withheld is							
	\$3,300	\$0.00							
\$3,300	\$3,350	\$0.65							
\$3,350	\$3,400	\$1.83							
\$3,400	\$3,450	\$4.00							
\$3,450	\$3,500	\$6.18							
\$3,500	\$3,550	\$8.35							
\$3,550	\$3,600	\$10.53							
\$3,600	\$3,650	\$12.70							
\$3,650	\$3,700	\$14.88	\$1.44						
\$3,700	\$3,750	\$17.05	\$3.61						
\$3,750	\$3,800	\$19.23	\$5.79						
\$3,800	\$3,850	\$21.40	\$7.96						
\$3,850	\$3,900	\$23.58	\$10.14						
\$3,900	\$3,950	\$25.75	\$12.31						
\$3,950	\$4,000	\$27.93	\$14.49	\$1.09					
\$4,000	\$4,050	\$30.10	\$16.66	\$3.26					
\$4,050	\$4,100	\$32.28	\$18.84	\$5.44					
\$4,100	\$4,150	\$34.45	\$21.01	\$7.61					
\$4,150	\$4,200	\$36.63	\$23.19	\$9.79					
\$4,200	\$4,250	\$38.80	\$25.36	\$11.96					
\$4,250	\$4,300	\$40.98	\$27.54	\$14.14	\$0.74				
\$4,300	\$4,350	\$43.15	\$29.71	\$16.31	\$2.91				
\$4,350	\$4,400	\$45.33	\$31.89	\$18.49	\$5.09				
\$4,400	\$4,450	\$47.50	\$34.06	\$20.66	\$7.26				
\$4,450	\$4,500	\$49.68	\$36.24	\$22.84	\$9.44				
\$4,500	\$4,550	\$51.85	\$38.41	\$25.01	\$11.61				
\$4,550	\$4,600	\$54.03	\$40.59	\$27.19	\$13.79	\$0.35			
\$4,600	\$4,650	\$56.20	\$42.76	\$29.36	\$15.96	\$2.52			
\$4,650	\$4,700	\$58.38	\$44.94	\$31.54	\$18.14	\$4.70			
\$4,700	\$4,750	\$60.55	\$47.11	\$33.71	\$20.31	\$6.87			
\$4,750	\$4,800	\$62.73	\$49.29	\$35.89	\$22.49	\$9.05			
\$4,800	\$4,850	\$64.90	\$51.46	\$38.06	\$24.66	\$11.22			
\$4,850	\$4,900	\$67.08	\$53.64	\$40.24	\$26.84	\$13.40			
\$4,900	\$4,950	\$69.25	\$55.81	\$42.41	\$29.01	\$15.57	\$2.18		
\$4,950	\$5,000	\$71.43	\$57.99	\$44.59	\$31.19	\$17.75	\$4.35		
\$5,000	\$5,050	\$73.60	\$60.16	\$46.76	\$33.36	\$19.92	\$6.53		
\$5,050	\$5,100	\$75.78	\$62.34	\$48.94	\$35.54	\$22.10	\$8.70		
\$5,100	\$5,150	\$77.95	\$64.51	\$51.11	\$37.71	\$24.27	\$10.88		
\$5,150	\$5,200	\$80.13	\$66.69	\$53.29	\$39.89	\$26.45	\$13.05		
\$5,200	\$5,250	\$82.30	\$68.86	\$55.46	\$42.06	\$28.62	\$15.23	\$1.83	
\$5,250	\$5,300	\$84.48	\$71.04	\$57.64	\$44.24	\$30.80	\$17.40	\$4.00	
\$5,300	\$5,350	\$86.65	\$73.21	\$59.81	\$46.41	\$32.97	\$19.58	\$6.18	
\$5,350	\$5,400	\$88.83	\$75.39	\$61.99	\$48.59	\$35.15	\$21.75	\$8.35	
\$5,400	\$5,450	\$91.00	\$77.56	\$64.16	\$50.76	\$37.32	\$23.93	\$10.53	
\$5,450	\$5,500	\$93.18	\$79.74	\$66.34	\$52.94	\$39.50	\$26.10	\$12.70	
				4.35% of excess over \$5,500 plus					
\$5,500 and over		\$94.26	\$80.82	\$67.43	\$54.03	\$40.59	\$27.19	\$13.79	

## Withholding Certificate for Michigan Pension or Annuity Payments

**INSTRUCTIONS:** Use Form MI W-4P to notify administrators of the correct amount of Michigan income tax to withhold from your pension or annuity payment(s). You may also use this form to choose not to have any Michigan income tax withheld from your payment(s). This does not apply to military pensions or certain pensions paid by the Railroad Retirement Board.

Significant income tax changes take effect for the 2012 tax year. Entities, over whom Michigan has jurisdiction, disbursing pension or annuity payments are required to collect withholding on those payments that are expected to be included in taxable income unless you choose to opt out by submitting this form (See instructions for line 1). Entities over which Michigan does not have jurisdiction are not required to withhold Michigan income tax from your pension or annuity payment(s). If your pension administrator does not withhold, you may need to make estimated income tax payments to avoid owing penalty and interest. For further information, see General Instructions on page two, the *Michigan Estimated Income Tax for Individuals* (MI-1040ES) or consult a tax advisor.

If you have more than one administrator, you will need to complete a form for each pension or annuity. If you do not file MI W-4P, the administrator may need to withhold even if you will not owe tax on your payment. **See instructions on page two.**

GENERAL INFORMATION		
Name	Social Security Number	
Mailing Address (Number, Street, P.O. Box)		
City	State	ZIP Code
Marital Status <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married (withhold the same as "Single")		

**For joint filers, the age of the oldest spouse determines the age category. Check only ONE box.**

- 1. Check here if your pension or annuity payments are not taxable. **STOP HERE AND SIGN FORM.**
- 2. Check here if you (or your spouse) were born before 1946. See instructions for line 2.
- 3. Check here if you (or your spouse) were born between 1946 and 1952 and your total household resources are **\$75,000 or less** for single filers or **\$150,000** for joint filers. See instructions for line 3 and Total Household Resources information on page 2.
- 4. Check here if you (or your spouse) were born between 1946 and 1952 and your total household resources **exceed \$75,000** for single filers or **\$150,000** for joint filers. See instructions for line 4 and Total Household Resources information on page 2.
- 5. Check here if you (and your spouse) were born after 1952. See instructions for line 5.

**Complete the following applicable lines:**

- 6. Enter number of personal exemptions allowed on your *Michigan Income Tax Return* (MI-1040). Exemptions should only be claimed once on all MI W-4s (wages) or MI W-4P forms submitted. 6. 

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- 7. Additional percentage amount, if any, you want withheld from your pension or annuity payment. This amount must be a percentage. 7. 

	%
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AUTHORIZATION	
Signature	
Printed or Typed Name and Title	Date

**Sign and return this completed form to the administrator of your pension or annuity. Keep a copy for your records.**

**Visit [www.michigan.gov/taxes](http://www.michigan.gov/taxes) for additional information.**

## Instructions for Completing MI W-4P, Withholding Certificate for Michigan Pension or Annuity Payments

### General Instructions

Significant income tax changes take effect for the 2012 tax year. These changes may result in a balance due if the incorrect amount is withheld from pension or annuity payment(s).

There is no change in 2012 in the tax treatment of pension and retirement benefits for taxpayers born before 1946. Recipients born between 1946 and 1952 are eligible to deduct pension and retirement benefits up to \$20,000 for single taxpayers or married filing separate, or \$40,000 if married filing a joint return. However, if total household resources exceed \$75,000 for a single filer or \$150,000 for a joint filer, the deduction for pension and retirement benefits is eliminated.

Recipients born after 1952 may not deduct pension and retirement benefits on the *Michigan Income Tax Return* (MI-1040). For joint filers, the age of the oldest spouse determines the age category.

**Total Household Resources:** Total Household Resources is similar to Household Income except Total Household Resources excludes net business, farm, rental and royalty losses. If total household resources exceed \$75,000 for a single filer or \$150,000 for a joint filer and the filer was born between 1946 and 1952, no deduction for pension or retirement benefits is allowed.

**Multiple pensions:** If you (and your spouse) receive multiple pension payments, your withholding on those payments may not cover your entire tax liability. Married couples where each spouse receives payments on their own pension may choose to have withholding calculated as if they were single on the MI W-4P and select one personal exemption in order to have sufficient withholding to cover their tax liability. Taxpayers with multiple pensions may need to consult the MI-1040ES or a tax advisor to ensure the proper amount is withheld or paid in estimated income tax payments.

**Estimated Payments:** There are penalties for not paying enough state income tax during the year, either through withholding or estimated tax payments. Taxpayers who have chosen not to have tax withheld from their pension or annuity payments may be required to make estimated tax payments. Refer to Form MI-1040ES for estimated tax requirements.

**When should I complete this form?** Complete Form MI W-4P and give it to the administrator of your pension or annuity payments as soon as possible.

Your tax situation may change from year to year; you may want to evaluate your withholding each year. You can change the amount to be withheld by submitting an updated Form MI W-4P to your pension or annuity administrator at any time.

**Is every pension administrator required to withhold Michigan tax?** Only companies over whom Michigan has taxing jurisdiction are required to withhold Michigan tax from your pension and/or annuity payment(s). If your pension administrator does not fall under Michigan jurisdiction, you may request to have Michigan tax withheld, but the company is not required to do so. If no taxes are withheld from your

payments, it is likely you will be required to make estimated payments in place of the withholding. Contact your pension and/or annuity administrator to verify if tax will be withheld from your payments.

### Line-by-Line Instructions

**Line 1:** You may opt out of withholding tax from your pension and annuity benefits if you believe you will not have a balance due on your MI-1040. If you (and your spouse) opt to have no Michigan tax withheld from your pension or retirement benefits by checking the box on line 1, it may result in a balance due on your MI-1040 as well as penalty and/or interest. If you check the box on line 1, do not complete lines 6 and 7. **STOP HERE AND SIGN THE FORM.**

**Line 2:** If you (or your spouse) were born prior to 1946, all benefits from public sources are exempt and benefits from private sources may be subtracted up to for \$45,842 for a single filer or married filer filing separately or \$91,684 if married filing a joint return for the 2012 tax year. In addition, benefits that will be rolled into another qualified plan or IRA will not be taxable if the amount rolled over is not included in federal adjusted gross income (AGI). Any private pension payment in excess of the limits above is taxable.

**Line 3:** If you (or your spouse) were born between 1946 and 1952 and your total household resources are \$75,000 or less for single filers or married filers filing separately, or \$150,000 for married filers filing a joint return, the first \$20,000 for single filers or \$40,000 for joint filers of all private and public pension and annuity benefits may be subtracted from Michigan taxable income. Benefits in excess of these limits are taxable to Michigan.

**Line 4.** If you (or your spouse) were born between 1946 and 1952 and your total household resources exceed \$75,000 for single filers or \$150,000 for joint filers, your pension is taxable; you may not deduct your pension benefits from Michigan income.

**Line 5:** If you (and your spouse) were born after 1952, all private and public pension and annuity benefits are fully taxable and may not be subtracted from Michigan taxable income.

**Line 6:** Enter personal exemptions based on box checked on lines 1-5. The total number of exemptions you claim on line 6 may not exceed the number of exemptions you are entitled to claim when you file your MI-1040.

**Line 7:** You may designate additional withholding if you expect to owe more than the amount withheld. This amount must be a percentage.

**NOTE:** If you enter a number on line 6 and/or a percentage on line 7, do not check box 1. If box 1 is checked and line(s) 6 and/or 7 are completed, this will override line 1.

**Failure to have sufficient tax withheld from your pension and/or annuity payment(s) may result in a balance due on your MI-1040 as well as penalty and/or interest.**

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## Frequently Asked Questions

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### Who needs to register?

Pursuant to MCL 206.703(1), any company, over whom Michigan has jurisdiction, is required to withhold Michigan tax from taxable pension and/or annuity payments. Therefore, these companies must register.

Companies, over whom Michigan does not have jurisdiction, but agree to withhold Michigan tax from pension and/or annuity payments for Michigan residents, will also need to register.

### How do pension administrators register?

Pension administrators not currently registered for Michigan Withholding Tax need to complete *Registration for Michigan Taxes* (Form 518). This form may be completed online at Michigan Business One Stop ([www.michigan.gov/business](http://www.michigan.gov/business)) or the completed application may be mailed to the address listed on the form.

### If a company is currently registered with Treasury for another tax other than Withholding, does it need to register as a pension administrator?

Yes, it must register for withholding.

### Will companies that use a payroll provider be required to register for pension withholding?

Yes. If a company is currently registered through a payroll provider, they will need to file a separate Form 518 to register for pension withholding.

### When should a pension administrator register?

Pension administrators may register at any time, but should register as soon as you know you have a Michigan resident(s) to which you pay pension and/or annuity payments.

### How often do you make payments?

A. Companies paying between \$750 and \$3,600 in annual withholding tax payments can choose to make payments monthly, quarterly or annually.

B. Companies that are reporting more than \$3,600 in annual withholding tax payments are required to make monthly payments, either by Electronic Funds Transfer (EFT) or by mail.

### Can payments be made electronically?

Yes. The following EFT Applications are available for submission: *Electronic Funds Transfer Debit Application* (Form 2248), or *Electronic Funds Transfer Credit Application* (Form 2328). An EFT application (Form 2248 or 2328) must be completed and signed by an officer and returned to Treasury before payments can begin.

### What is the threshold for electronic filing?

Electronic filing can be used to submit payments and file monthly or quarterly returns. Companies expecting to pay \$40,000 or more each month are required to pay by EFT.

The *Annual Return for Sales, Use and Withholding Taxes* (Form 165) cannot be submitted electronically and must be paper filed. Visit [www.michigan.gov/business](http://www.michigan.gov/business) or see the instructions for Form 165 for filing requirements.

### How do you report at the end of the year?

Include any Michigan withholding reported on a 1099-R on Form 165. See the *Sales, Use, and Withholding Tax Forms and Instructions* (Form 78) for more information on filing Form 165.

### In the absence of an MI W-4P, can the pension administrators substitute it with the Federal W-4P.

No.

Michigan Department of Treasury  
Lansing, MI 48922

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