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STATE OF MICHIGAN  
**DEPARTMENT OF TREASURY**  
TREASURY BUILDING  
LANSING, MICHIGAN 48922

REVENUE ADMINISTRATIVE BULLETIN 1988-15

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INDIVIDUAL INCOME TAX -  
TAXABILITY OF DEFERRED COMPENSATION

(Replaces Income Tax Bulletin 1985-1)

RAB-88-15. This Bulletin is issued to clarify the Michigan income tax treatment of contributions made to deferred compensation plans and the subsequent distributions of these amounts. This Bulletin supersedes Income Tax Bulletin 1985-1, August 26, 1985.

Federal Treatment

Generally, a contribution made to a deferred compensation plan is not subject to taxation until this amount is made available or distributed to an employee or participant in the plan. The distribution, including interest income earned and credited to the account of an employee or participant, is considered deferred compensation and is subject to income tax withholding as well as the imposition of Federal income tax upon the distribution.

Michigan Treatment

The Michigan Income Tax Act, MCL 206.30(1), defines taxable income as adjusted gross income as defined in the Internal Revenue Code subject to certain adjustments.

In the case of a Michigan resident, amounts contributed under a deferred compensation plan and accrued interest are subject to Michigan income tax when they are included in Federal adjusted gross income pursuant to MCL 206.110(1).

In the case of a nonresident, amounts contributed to a deferred compensation plan are subject to Michigan income tax to the extent the compensation was earned, received or acquired for the rendition of personal services under Michigan's Income Tax Act, MCL 206.110(2)(a).

**Resident**

A distribution of deferred compensation to a Michigan resident is subject to Michigan income tax to the extent it has been included in Federal adjusted gross income.



Where a Michigan resident receives a distribution of deferred compensation arising from services performed in another state and that state imposes an income tax on the deferred compensation, Michigan Income Tax Act, MCL 206.255(1),(3) allows a credit against the tax due to the other state of the United States or a political subdivision thereof, the District of Columbia, or a Canadian province.

The credit is limited to the lesser of: (1) the tax due to the other state, or (2) the portion of Michigan income tax that the income subject to tax in both states bears to total taxable income under the Department of Treasury Income Tax Rules, 1979 AC, R 206.16(1).

A resident taxpayer who participates in a deferred compensation plan and who changes his or her domicile to another state must file Form C-4296 Statement of Deferred Compensation Assignable to Michigan, with his or her Michigan income tax return in either: (1) the first year that domicile changes, or (2) the first year the taxpayer receives a distribution of deferred compensation, whichever occurs first.

#### Nonresident

Deferred compensation received, earned or acquired for personal services performed in this State is subject to Michigan income tax in the year the taxable income is received, unless the taxpayer is a resident of a state that is a party to a reciprocal agreement as provided for in Michigan Income Tax Act, MCL 206.256(3). Interest income accrued on the compensation is allocated to the individual's state of residency.

If an individual changes his or her domicile from Michigan to another state, the aggregate amount contributed to a deferred compensation plan together with interest that has accrued through the date of the domicile change is subject to Michigan income tax when the taxpayer begins to receive distributions from the plan.

#### Resident of Reciprocal State

In accordance with the Michigan Income Tax Act, MCL 206.256(3), deferred compensation received by a resident of Ohio, Indiana, Illinois, Wisconsin or Kentucky will not be taxed by this State even though the compensation was received for services performed in this State, or the taxpayer was a resident of this State at the time the compensation was earned. Conversely, these states will not tax salaries or wages received by a Michigan resident where the services were performed in the other state or where the taxpayer was a resident of one of these states at the time the compensation was earned. A Michigan resident is not allowed a credit for tax paid to the other state if a reciprocity agreement is in force.

### Beneficiary

A deceased participant's beneficiary is subject to tax on the distributions from a deferred compensation plan in the same manner as prescribed for the participant. Income in respect of a decedent has the same character in the hands of the beneficiary as it had in the hands of the decedent under the Internal Revenue Code of 1986, Section 691(3).

### Withholding Tax

An employer who is required under the provisions of the Internal Revenue Code of 1986 to withhold for tax on distributions from a deferred compensation plan is required by Michigan Income Tax Act, MCL 206.351(1), to also withhold Michigan income tax.

A nonresident may file Form MI-W4 Employees Michigan Withholding Exemption Certificate to claim exemption from Michigan withholding after the distributions attributable to Michigan have been reported and taxed. To avoid withholdings tax on distributions from a deferred compensation plan, the notation "nonresident deferred compensation recovered" should be marked on the MI-W4 Form.

A copy of the MI-W4 Form should also be filed with the MI-1040 Michigan Income Tax Return to report the final payment of deferred compensation.

### Household Income

For purposes of computing a property tax credit, farmland preservation tax credit, or home heating credit, a deferral of compensation to a later year is includable in household income only in the year the compensation is included in the taxpayer's Federal adjusted gross income under the Department of Treasury Income Tax Rules, 1979 AC, R 206.4.