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CHANGES IN STATE AND LOCAL INCOME TAX RULES Create New Administrative Requirements for Qualified Retirement Plans

Washington, D.C. and Michigan have changed their state and local income tax rules applicable to distributions from tax-qualified retirement plans. The affected plans include 401(k), defined benefit, profit sharing, employee stock ownership, and 403(b) plans. These changes were effective **January 1, 2012**.

Washington, D.C. Creates Mandatory Withholding. The state and local income withholding rules in Washington, D.C. have changed so that local income tax withholding, at a rate of 8.95%, is mandatory for all qualified retirement plan distributions that are subject to federal withholding. Previously, withholding in this jurisdiction was optional.

Michigan. The state and local income tax rules in Michigan have changed so that:

- **Mandatory Withholding.** State income tax withholding, at a rate of 4.35%, is mandatory for all retirement plan distributions that are subject to withholding. Previously, withholding in this jurisdiction was optional.
- **Variable Individual Tax Rates.** The taxation of individuals who receive distributions from qualified retirement plans in Michigan also changed. The state individual income tax rates applicable to retirement plan distributions now vary based on the ages of the recipients.

Next Steps.

- Employers should check with their retirement plan service providers to ensure they are updating their forms and practices and complying with the new withholding rules.
- Employee communications regarding state and local taxes should be updated.

Contact Information. For more information, please call Teri King (404.888.8847),

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