

Michigan Retirement: Low Taxes & Stunning Beauty

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Michigan is a top choice for retirees. Enjoy low taxes, breathtaking scenery and abundant outdoor recreation.

This article is a part of the 50 states retirement tax-planning series. [View the series here.](#)

By Matthew Kidd

Michigan's low cost of living, spectacular natural beauty and abundant recreation make this state a big draw for retirees. With more than 18% of the state's population over the age of 65, there are plenty of reasons for seniors to call the Wolverine state home. The state offers a moderate income tax with plenty of benefits for seniors, along with several tax deductions and credits that make the state of Michigan an affordable option.

An affordable state income tax

State income tax currently stands at a flat rate of 4.25%, although this rate may see some minor fluctuation from year to year due to the state law, which says the rate may decrease if certain economic conditions are met. Several municipalities add a local income tax on top of the state tax, which ranges from 1% to a high of 2.4% in Detroit. Currently, tax filers can take a \$5,400 personal exemption and an additional \$5,400 for each dependent, although the state has no additional exemption for senior citizens.

Seniors do enjoy several tax advantages which can significantly reduce the 4.2% flat rate. Social Security benefits are not taxable in the state. Other retirement income such as pensions, 401(k) and IRA distributions are partially taxable, and will be fully exempt by 2026. In addition to the retirement income benefit, Michiganders who are 77 years of age or older can also subtract any dividend, interest and capital gains income up to \$13,712 for single filers or \$27,424 for joint filers.

Michigan's property tax benefits are a plus for senior

homeowners

Homeowners in Michigan will face property taxes that vary between municipalities, but average about 1.38% of a home's assessed value. According to state law, annual increases in assessed value are limited to 5% or the rate of inflation, whichever is less.

Renters in Michigan will also enjoy a break, as the state's homestead property tax credit is available to both homeowners and renters of all ages. To qualify, you must have owned or rented a home in Michigan for at least six months. The credit is income-qualified and currently available to those with a total household income of \$67,300 or less; and for homeowners, the taxable value of the home must be less than \$154,400. That may not sound like a lot to others in the coastal states, but real estate prices in Michigan are comparatively low, at an average value of \$247,638 according to Zillow, with several cities and neighborhoods offering homes at prices even lower than that.

Seniors who are renters and pay more than 40% of total household income in rent may get an additional benefit in the form of the senior alternate credit. Taxpayers cannot claim both the senior alternate credit and the homestead property tax credit though, so seniors should crunch the numbers on both and choose which one provides the biggest tax benefit.

Sales tax

Michigan's state sales tax rate is 6% and there are no additional local sales taxes on top of that. Electricity, natural and artificial gas, and home heating fuels for residential use are taxed at 4%. Most grocery food and beverage items are exempt from sales tax, with the exception of prepared foods. In addition, prescription drugs, prosthetic devices, feminine hygiene products and durable medical equipment are all exempt from sales tax.

Estate planning in Michigan

Estate planning is important for many retirees and Michigan is one state which does offer an advantage in this area. There is no estate tax in the state and most Michigan residents will also pay no inheritance tax.

Contributing to education

The Michigan Education Savings Program (MESP), the state's version of the 529 college savings account, allows individuals to deduct up to \$5,000 in contributions from the

Michigan adjusted gross income, or \$10,000 for those filing jointly. In addition, all earnings from the account are 100% tax free from both federal and state taxes if used for qualified education expenses.

Health insurance and Medicare premiums

When calculating credits on the Michigan income tax return, including the homestead property tax credit, taxpayers can deduct qualified paid health insurance premiums from income when calculating the credit. Post-tax Medicare premiums, that is, Medicare premiums which are paid out of pocket, may also be deducted from income when calculating credits.

Planning a happy retirement in Michigan

Michigan's state income tax and property tax offers retirees plenty of opportunity to plan for a financially advantageous retirement – and to keep more of their hard-earned money. However, proper planning is essential to take full advantage of every deduction and credit available. To find a professional in Michigan, click [here](#). You can find a licensed professional [here](#).

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