

# HOUSE BILL No. 4073

January 28, 1997, Introduced by Rep. Voorhees and referred to the Committee on Tax Policy.

A bill to amend 1967 PA 281, entitled "Income tax act of 1967," by amending section 30 (MCL 206.30), as amended by 1995 PA 230; and to repeal acts and parts of acts.

## **THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 30. (1) "Taxable income" means, for a person other  
2 than a corporation, estate, or trust, adjusted gross income as  
3 defined in the internal revenue code subject to the following  
4 adjustments:

5       (a) Add gross interest income and dividends derived from  
6 obligations or securities of states other than Michigan, in the  
7 same amount that has been excluded from adjusted gross income  
8 less related expenses not deducted in computing adjusted gross  
9 income because of section 265(a)(1) of the internal revenue  
10 code.

1 (b) Add taxes on or measured by income to the extent the  
2 taxes have been deducted in arriving at adjusted gross income.

3 (c) Add losses on the sale or exchange of obligations of the  
4 United States government, the income of which this state is pro-  
5 hibited from subjecting to a net income tax, to the extent that  
6 the loss has been deducted in arriving at adjusted gross income.

7 (d) Deduct, to the extent included in adjusted gross income,  
8 income derived from obligations, or the sale or exchange of obli-  
9 gations, of the United States government that this state is pro-  
10 hibited by law from subjecting to a net income tax, reduced by  
11 any interest on indebtedness incurred in carrying the obligations  
12 and by any expenses incurred in the production of that income to  
13 the extent that the expenses, including amortizable bond premi-  
14 ums, were deducted in arriving at adjusted gross income.

15 (e) Deduct, to the extent included in adjusted gross income,  
16 compensation, including retirement benefits, received for serv-  
17 ices in the armed forces of the United States.

18 (f) Deduct the following to the extent included in adjusted  
19 gross income:

20 (i) Retirement or pension benefits received from a federal  
21 public retirement system or from a public retirement system of or  
22 created by this state or a political subdivision of this state.

23 (ii) Retirement or pension benefits received from a public  
24 retirement system of or created by another state or any of its  
25 political subdivisions if the income tax laws of the other state  
26 permit a similar deduction or exemption or a reciprocal deduction  
27 or exemption of a retirement or pension benefit received from a

1 public retirement system of or created by this state or any of  
2 the political subdivisions of this state.

3 (iii) Social security benefits as defined in section 86 of  
4 the internal revenue code.

5 (iv) Before October 1, 1994, retirement or pension benefits  
6 from any other retirement or pension system as follows:

7 (A) For a single return, the sum of not more than  
8 \$7,500.00.

9 (B) For a joint return, the sum of not more than  
10 \$10,000.00.

11 (v) After September 30, 1994, retirement or pension benefits  
12 not deductible under subparagraph (i) or subdivision (e) from any  
13 other retirement or pension system or benefits from a retirement  
14 annuity policy in which payments are made for life to a senior  
15 citizen, to a maximum of ~~the amounts provided for in section~~  
16 ~~30a~~ \$30,000.00 FOR A SINGLE RETURN AND \$60,000.00 FOR A JOINT  
17 RETURN. The maximum amounts allowed under this subparagraph  
18 shall be reduced by the amount of the deduction for retirement or  
19 pension benefits claimed under subparagraph (i) or subdivision  
20 (e) and for tax years after the 1996 tax year by the amount of a  
21 deduction claimed under subdivision (r). For the 1995 tax year  
22 and each tax year after 1995, the maximum amounts allowed under  
23 this subparagraph shall be adjusted by the percentage increase in  
24 the Detroit consumer price index for the immediately preceding  
25 calendar year. The department shall annualize the amounts pro-  
26 vided in this subparagraph and subparagraph (iv) as necessary for  
27 tax years that end after September 30, 1994. As used in this

1 subparagraph, "senior citizen" means that term as defined in  
2 section 514.

3 (vi) The amount determined to be the section 22 amount eli-  
4 gible for the elderly and permanently and totally disabled credit  
5 provided in section 22 of the internal revenue code.

6 (g) Adjustments resulting from the application of section  
7 271.

8 (h) Adjustments with respect to estate and trust income as  
9 provided in section 36.

10 (i) Adjustments resulting from the allocation and apportion-  
11 ment provisions of chapter 3.

12 (j) Deduct political contributions as described in section 4  
13 of the Michigan campaign finance act, ~~Act No. 388 of the Public~~  
14 ~~Acts of 1976, being section 169.204 of the Michigan Compiled~~  
15 ~~Laws~~ 1976 PA 388, MCL 169.204, or section 301 of title III of  
16 the federal election campaign act of 1971, Public Law 92-225, 2  
17 U.S.C. 431, not in excess of \$50.00 per annum, or \$100.00 per  
18 annum for a joint return.

19 (k) Deduct, to the extent included in adjusted gross income,  
20 wages not deductible under section 280C of the internal revenue  
21 code.

22 (l) Deduct the following payments made by the taxpayer in  
23 the tax year:

24 (i) The amount of payment made under an advance tuition pay-  
25 ment contract as provided in the Michigan education trust act,  
26 ~~Act No. 316 of the Public Acts of 1986, being sections 390.1421~~

1 to ~~390.1444~~ of the Michigan Compiled Laws 1986 PA 316, MCL  
2 390.1421 TO 390.1444.

3 (ii) The amount of payment made under a contract with a pri-  
4 vate sector investment manager that meets all of the following  
5 criteria:

6 (A) The contract is certified and approved by the board of  
7 directors of the Michigan education trust to provide equivalent  
8 benefits and rights to purchasers and beneficiaries as an advance  
9 tuition payment contract as described in subparagraph (i).

10 (B) The contract applies only for a state institution of  
11 higher education as defined in the Michigan education trust act,  
12 ~~Act No. 316 of the Public Acts of 1986~~ 1986 PA 316, MCL  
13 390.1421 TO 390.1444, or a community or junior college in  
14 Michigan.

15 (C) The contract provides for enrollment by the contract's  
16 qualified beneficiary in not less than 4 years after the date on  
17 which the contract is entered into.

18 (D) The contract is entered into after either of the  
19 following:

20 (I) The purchaser has had his or her offer to enter into an  
21 advance tuition payment contract rejected by the board of direc-  
22 tors of the Michigan education trust, if the board determines  
23 that the trust cannot accept an unlimited number of enrollees  
24 upon an actuarially sound basis.

25 (II) The board of directors of the Michigan education trust  
26 determines that the trust can accept an unlimited number of  
27 enrollees upon an actuarially sound basis.

1 (m) If an advance tuition payment contract under the  
2 Michigan education trust act, ~~Act No. 316 of the Public Acts of~~  
3 ~~1986~~ 1986 PA 316, MCL 390.1421 TO 390.1444, or another contract  
4 for which the payment was deductible under subdivision (l) is  
5 terminated and the qualified beneficiary under that contract does  
6 not attend a university, college, junior or community college, or  
7 other institution of higher education, add the amount of a refund  
8 received by the taxpayer as a result of that termination or the  
9 amount of the deduction taken under subdivision (l) for payment  
10 made under that contract, whichever is less.

11 (n) Deduct from the taxable income of a purchaser the amount  
12 included as income to the purchaser under the internal revenue  
13 code after the advance tuition payment contract entered into  
14 under the Michigan education trust act, ~~Act No. 316 of the~~  
15 ~~Public Acts of 1986~~ 1986 PA 316, MCL 390.1421 TO 390.1444, is  
16 terminated because the qualified beneficiary attends an institu-  
17 tion of postsecondary education other than either a state insti-  
18 tution of higher education or an institution of postsecondary  
19 education located outside this state with which a state institu-  
20 tion of higher education has reciprocity.

21 (o) Add, to the extent deducted in determining adjusted  
22 gross income, the net operating loss deduction under section 172  
23 of the internal revenue code.

24 (p) Deduct a net operating loss deduction for the taxable  
25 year as ~~defined in~~ DETERMINED UNDER section 172 of the internal  
26 revenue code subject to the modifications under section 172(b)(2)  
27 of the internal revenue code and subject to the allocation and

1 apportionment provisions of chapter 3 of this act for the taxable  
2 year in which the loss was incurred.

3 (q) For a tax year beginning after 1986, deduct, to the  
4 extent included in adjusted gross income, benefits from a dis-  
5 criminatory self-insurance medical expense reimbursement plan.

6 (r) After September 30, 1994 and before the 1997 tax year, a  
7 taxpayer who is a senior citizen may deduct, to the extent  
8 included in adjusted gross income, interest and dividends  
9 received in the tax year not to exceed \$1,000.00 for a single  
10 return or \$2,000.00 for a joint return. However, for tax years  
11 before the 1997 tax year, the deduction under this subdivision  
12 shall not be taken if the taxpayer takes a deduction for retire-  
13 ment benefits under subdivision (e) or a deduction under  
14 subdivision (f)(i), (ii), (iv), or (v). For tax years after the  
15 1996 tax year, a taxpayer who is a senior citizen may deduct to  
16 the extent included in adjusted gross income, interest, divi-  
17 dends, and capital gains received in the tax year not to exceed  
18 \$3,500.00 for a single return and \$7,000.00 for a joint return  
19 for the 1997 tax year, and ~~the amounts determined under~~  
20 ~~section 30c~~ \$7,500.00 FOR A SINGLE RETURN AND \$15,000.00 FOR A  
21 JOINT RETURN for tax years after the 1997 tax year. For tax  
22 years after the 1996 tax year, the maximum amounts allowed under  
23 this subdivision shall be reduced by the amount of a deduction  
24 claimed for retirement benefits under subdivision (e) or a deduc-  
25 tion claimed under subdivision (f)(i), (ii), (iv), or (v). For  
26 the 1995 tax year, for the 1996 tax year, and for each tax year  
27 after the 1998 tax year, the maximum amounts allowed under this

1 subdivision shall be adjusted by the percentage increase in the  
 2 Detroit consumer price index for the immediately preceding calen-  
 3 dar year. The department shall annualize the amounts provided in  
 4 this subdivision as necessary for tax years that end after  
 5 September 30, 1994. As used in this subdivision, "senior  
 6 citizen" means that term as defined in section 514.

7 (S) FOR THE 1997 TAX YEAR AND EACH TAX YEAR AFTER THE 1997  
 8 TAX YEAR, A TAXPAYER WHO IS A LAND CONTRACT VENDOR MAY DEDUCT, TO  
 9 THE EXTENT INCLUDED IN ADJUSTED GROSS INCOME, AN AMOUNT EQUAL TO  
 10 THE SUM OF COLLECTION AND FILING FEES ASSOCIATED WITH EACH LAND  
 11 CONTRACT PAID BY THE TAXPAYER IN THE TAX YEAR.

12 (2) The following personal exemptions multiplied by the  
 13 number of personal or dependency exemptions allowable on the  
 14 taxpayer's federal income tax return pursuant to the internal  
 15 revenue code shall be subtracted from taxable income:

16 (a) For a tax year beginning during 1987..... \$1,600.00.  
 17 (b) For a tax year beginning during 1988..... \$1,800.00.  
 18 (c) For a tax year beginning during 1989..... \$2,000.00.  
 19 (d) For a tax year beginning after 1989 and before  
 20 1995..... \$2,100.00.  
 21 (e) For a tax year beginning during 1995 or 1996 \$2,400.00.  
 22 (f) Except as otherwise provided in ~~section 30b~~  
 23 SUBSECTION (7), for a tax year beginning after 1996... \$2,500.00.

24 (3) A single additional exemption of \$1,400.00 for a tax  
 25 year beginning during 1987, \$1,200.00 for a tax year beginning  
 26 during 1988, \$1,000.00 for a tax year beginning during 1989, and

1 \$900.00 for a tax year beginning after 1989 is allowed in each of  
2 the following circumstances:

3 (a) The taxpayer is a paraplegic, a quadriplegic, a hemiple-  
4 gic, a person who is blind as defined in section 504, or a  
5 totally and permanently disabled person as defined in section  
6 522.

7 (b) The taxpayer is a deaf person as defined in section 2 of  
8 the deaf persons' interpreters act, ~~Act No. 204 of the Public~~  
9 ~~Acts of 1982, being section 393.502 of the Michigan Compiled~~  
10 ~~Laws~~ 1982 PA 204, MCL 393.502.

11 (c) The taxpayer is 65 years of age or older.

12 (d) The return includes unemployment compensation that  
13 amounts to 50% or more of adjusted gross income.

14 (4) For a tax year beginning after 1987, an individual with  
15 respect to whom a deduction under section 151 of the internal  
16 revenue code is allowable to another federal taxpayer during the  
17 tax year is not considered to have an allowable federal exemption  
18 for purposes of subsection (2), but may deduct \$500.00 from tax-  
19 able income for a tax year beginning in 1988 and \$1,000.00 for a  
20 tax year beginning after 1988.

21 (5) A nonresident or a part-year resident is allowed that  
22 proportion of an exemption or deduction allowed under subsection  
23 (2), (3), or (4) that the taxpayer's portion of adjusted gross  
24 income from Michigan sources bears to the taxpayer's total  
25 adjusted gross income.

26 (6) For a tax year beginning after 1987, in calculating  
27 taxable income, a taxpayer shall not subtract from adjusted gross

1 income the amount of prizes won by the taxpayer under the  
2 McCauley-Traxler-Law-Bowman-McNeely lottery act, ~~Act No. 239 of~~  
3 ~~the Public Acts of 1972, being sections 432.1 to 432.47 of the~~  
4 ~~Michigan Compiled Laws~~ 1972 PA 239, MCL 432.1 TO 432.47.

5 (7) FOR EACH TAX YEAR AFTER THE 1997 TAX YEAR, THE PERSONAL  
6 EXEMPTION ALLOWED UNDER SUBSECTION (2) SHALL BE ADJUSTED BY  
7 MULTIPLYING THE EXEMPTION FOR THE TAX YEAR BEGINNING IN 1997 BY A  
8 FRACTION, THE NUMERATOR OF WHICH IS THE UNITED STATES CONSUMER  
9 PRICE INDEX FOR THE STATE FISCAL YEAR ENDING IN THE TAX YEAR FOR  
10 WHICH THE ADJUSTMENT IS BEING MADE AND THE DENOMINATOR OF WHICH  
11 IS THE UNITED STATES CONSUMER PRICE INDEX FOR THE 1996-97 STATE  
12 FISCAL YEAR. THE RESULTANT PRODUCT SHALL BE ROUNDED TO THE NEAR-  
13 EST \$100.00 INCREMENT WHICH SHALL BE THE PERSONAL EXEMPTION FOR  
14 THE TAX YEAR. AS USED IN THIS SECTION, "UNITED STATES CONSUMER  
15 PRICE INDEX" MEANS THE UNITED STATES CONSUMER PRICE INDEX FOR ALL  
16 URBAN CONSUMERS AS DEFINED AND REPORTED BY THE UNITED STATES  
17 DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS.

18 Enacting section 1. Sections 30a, 30b, and 30c of the  
19 income tax act of 1967, 1967 PA 281, MCL 206.30a, 206.30b, and  
20 206.30c, are repealed effective January 1, 1997.

21 Enacting section 2. This amendatory act is effective  
22 January 1, 1997.