

# SENATE BILL No. 793

September 19, 2007, Introduced by Senators RICHARDVILLE, VAN WOERKOM, KUIPERS, GARCIA, HARDIMAN, CROSEY, PAPPAGEORGE, JANSEN, STAMAS, ALLEN, BIRKHOZL, BROWN, GILBERT, KAHN, SANBORN and BISHOP and referred to the Committee on Finance.

A bill to amend 1967 PA 281, entitled  
"Income tax act of 1967,"  
by amending section 30 (MCL 206.30), as amended by 2005 PA 214.

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

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

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 code.

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

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

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

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

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

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

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

1 the political subdivisions of this state.

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

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

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

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

8 (v) After September 30, 1994, retirement or pension benefits  
9 not deductible under subparagraph (i) or subdivision (e) from any  
10 other retirement or pension system or benefits from a retirement  
11 annuity policy in which payments are made for life to a senior  
12 citizen, to a maximum of \$30,000.00 for a single return and  
13 \$60,000.00 for a joint return. The maximum amounts allowed under  
14 this subparagraph shall be reduced by the amount of the deduction  
15 for retirement or pension benefits claimed under subparagraph (i)  
16 or subdivision (e) and for tax years after the 1996 tax year by  
17 the amount of a deduction claimed under subdivision (r). For the  
18 1995 tax year and each tax year after 1995, the maximum amounts  
19 allowed under this subparagraph shall be adjusted by the  
20 percentage increase in the United States consumer price index for  
21 the immediately preceding calendar year. The department shall  
22 annualize the amounts provided in this subparagraph and  
23 subparagraph (iv) as necessary for tax years that end after  
24 September 30, 1994. As used in this subparagraph, "senior  
25 citizen" means that term as defined in section 514.

26 (vi) The amount determined to be the section 22 amount  
27 eligible for the elderly and the permanently and totally disabled

1 credit provided in section 22 of the internal revenue code.

2 (g) Adjustments resulting from the application of section  
3 271.

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

6 (i) Adjustments resulting from the allocation and  
7 apportionment provisions of chapter 3.

8 (j) Deduct political contributions as described in section 4  
9 of the Michigan campaign finance act, 1976 PA 388, MCL 169.204,  
10 or 2 USC 431, not in excess of \$50.00 per annum, or \$100.00 per  
11 annum for a joint return.

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

15 (l) Deduct the following payments made by the taxpayer in the  
16 tax year:

17 (i) The amount of payment made under an advance tuition  
18 payment contract as provided in the Michigan education trust act,  
19 1986 PA 316, MCL 390.1421 to 390.1442.

20 (ii) The amount of payment made under a contract with a  
21 private sector investment manager that meets all of the following  
22 criteria:

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

27 (B) The contract applies only for a state institution of

1 higher education as defined in the Michigan education trust act,  
2 1986 PA 316, MCL 390.1421 to 390.1442, or a community or junior  
3 college in Michigan.

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

7 (D) The contract is entered into after either of the  
8 following:

9 (I) The purchaser has had his or her offer to enter into an  
10 advance tuition payment contract rejected by the board of  
11 directors of the Michigan education trust, if the board  
12 determines that the trust cannot accept an unlimited number of  
13 enrollees upon an actuarially sound basis.

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

17 (m) If an advance tuition payment contract under the  
18 Michigan education trust act, 1986 PA 316, MCL 390.1421 to  
19 390.1442, or another contract for which the payment was  
20 deductible under subdivision (l) is terminated and the qualified  
21 beneficiary under that contract does not attend a university,  
22 college, junior or community college, or other institution of  
23 higher education, add the amount of a refund received by the  
24 taxpayer as a result of that termination or the amount of the  
25 deduction taken under subdivision (l) for payment made under that  
26 contract, whichever is less.

27 (n) Deduct from the taxable income of a purchaser the amount

1 included as income to the purchaser under the internal revenue  
2 code after the advance tuition payment contract entered into  
3 under the Michigan education trust act, 1986 PA 316, MCL 390.1421  
4 to 390.1442, is terminated because the qualified beneficiary  
5 attends an institution of postsecondary education other than  
6 either a state institution of higher education or an institution  
7 of postsecondary education located outside this state with which  
8 a state institution of higher education has reciprocity.

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

12 (p) Deduct a net operating loss deduction for the taxable  
13 year as determined under section 172 of the internal revenue code  
14 subject to the modifications under section 172(b)(2) of the  
15 internal revenue code and subject to the allocation and  
16 apportionment provisions of chapter 3 of this act for the taxable  
17 year in which the loss was incurred.

18 (q) For a tax year beginning after 1986, deduct, to the  
19 extent included in adjusted gross income, benefits from a  
20 discriminatory self-insurance medical expense reimbursement plan.

21 (r) After September 30, 1994 and before the 1997 tax year, a  
22 taxpayer who is a senior citizen may deduct, to the extent  
23 included in adjusted gross income, interest and dividends  
24 received in the tax year not to exceed \$1,000.00 for a single  
25 return or \$2,000.00 for a joint return. However, for tax years  
26 before the 1997 tax year, the deduction under this subdivision  
27 shall not be taken if the taxpayer takes a deduction for

1 retirement benefits under subdivision (e) or a deduction under  
2 subdivision (f) (i), (ii), (iv), or (v). For tax years after the 1996  
3 tax year, a taxpayer who is a senior citizen may deduct to the  
4 extent included in adjusted gross income, interest, dividends,  
5 and capital gains received in the tax year not to exceed  
6 \$3,500.00 for a single return and \$7,000.00 for a joint return  
7 for the 1997 tax year, and \$7,500.00 for a single return and  
8 \$15,000.00 for a joint return for tax years after the 1997 tax  
9 year. For tax years after the 1996 tax year, the maximum amounts  
10 allowed under this subdivision shall be reduced by the amount of  
11 a deduction claimed for retirement benefits under subdivision (e)  
12 or a deduction claimed under subdivision (f) (i), (ii), (iv), or (v).  
13 For the 1995 tax year, for the 1996 tax year, and for each tax  
14 year after the 1998 tax year, the maximum amounts allowed under  
15 this subdivision shall be adjusted by the percentage increase in  
16 the United States consumer price index for the immediately  
17 preceding calendar year. The department shall annualize the  
18 amounts provided in this subdivision as necessary for tax years  
19 that end after September 30, 1994. As used in this subdivision,  
20 "senior citizen" means that term as defined in section 514.

21 (s) Deduct, to the extent included in adjusted gross income,  
22 all of the following:

23 (i) The amount of a refund received in the tax year based on  
24 taxes paid under this act.

25 (ii) The amount of a refund received in the tax year based on  
26 taxes paid under the city income tax act, 1964 PA 284, MCL  
27 141.501 to 141.787.

1           (iii) The amount of a credit received in the tax year based on  
2 a claim filed under sections 520 and 522 to the extent that the  
3 taxes used to calculate the credit were not used to reduce  
4 adjusted gross income for a prior year.

5           (t) Add the amount paid by the state on behalf of the  
6 taxpayer in the tax year to repay the outstanding principal on a  
7 loan taken on which the taxpayer defaulted that was to fund an  
8 advance tuition payment contract entered into under the Michigan  
9 education trust act, 1986 PA 316, MCL 390.1421 to 390.1442, if  
10 the cost of the advance tuition payment contract was deducted  
11 under subdivision (l) and was financed with a Michigan education  
12 trust secured loan.

13           (u) For the 1998 tax year and each tax year after the 1998  
14 tax year, deduct the amount calculated under section 30d.

15           (v) For tax years that begin on and after January 1, 1994,  
16 deduct, to the extent included in adjusted gross income, any  
17 amount, and any interest earned on that amount, received in the  
18 tax year by a taxpayer who is a Holocaust victim as a result of a  
19 settlement of claims against any entity or individual for any  
20 recovered asset pursuant to the German act regulating unresolved  
21 property claims, also known as Gesetz zur Regelung offener  
22 Vermögensfragen, as a result of the settlement of the action  
23 entitled In re: Holocaust victim assets litigation, CV-96-4849,  
24 CV-96-5161, and CV-97-0461 (E.D. NY), or as a result of any  
25 similar action if the income and interest are not commingled in  
26 any way with and are kept separate from all other funds and  
27 assets of the taxpayer. As used in this subdivision:



1           (i) "Holocaust victim" means a person, or the heir or  
2 beneficiary of that person, who was persecuted by Nazi Germany or  
3 any Axis regime during any period from 1933 to 1945.

4           (ii) "Recovered asset" means any asset of any type and any  
5 interest earned on that asset including, but not limited to, bank  
6 deposits, insurance proceeds, or artwork owned by a Holocaust  
7 victim during the period from 1920 to 1945, withheld from that  
8 Holocaust victim from and after 1945, and not recovered,  
9 returned, or otherwise compensated to the Holocaust victim until  
10 after 1993.

11           (w) For tax years that begin after December 31, 1999,  
12 deduct, to the extent not deducted in determining adjusted gross  
13 income, both of the following:

14           (i) The total of all contributions made on and after October  
15 1, 2000 by the taxpayer in the tax year less qualified  
16 withdrawals made in the tax year to education savings accounts  
17 pursuant to the Michigan education savings program act, 2000 PA  
18 161, MCL 390.1471 to 390.1486, not to exceed \$5,000.00 for a  
19 single return or \$10,000.00 for a joint return per tax year.

20           (ii) The amount under section 30f.

21           (x) For tax years that begin after December 31, 1999, add,  
22 to the extent not included in adjusted gross income, the amount  
23 of money withdrawn by the taxpayer in the tax year from education  
24 savings accounts, not to exceed the total amount deducted under  
25 subdivision (w) in the tax year and all previous tax years, if  
26 the withdrawal was not a qualified withdrawal as provided in the  
27 Michigan education savings program act, 2000 PA 161, MCL 390.1471

1 to 390.1486. This subdivision does not apply to withdrawals that  
2 are less than the sum of all contributions made to an education  
3 savings account in all previous tax years for which no deduction  
4 was claimed under subdivision (w), less any contributions for  
5 which no deduction was claimed under subdivision (w) that were  
6 withdrawn in all previous tax years.

7 (y) For tax years that begin after December 31, 1999,  
8 deduct, to the extent included in adjusted gross income, the  
9 amount of a distribution from individual retirement accounts that  
10 qualify under section 408 of the internal revenue code if the  
11 distribution is used to pay qualified higher education expenses  
12 as that term is defined in the Michigan education savings program  
13 act, 2000 PA 161, MCL 390.1471 to 390.1486.

14 (z) For tax years that begin after December 31, 2000,  
15 deduct, to the extent included in adjusted gross income, an  
16 amount equal to the qualified charitable distribution made in the  
17 tax year by a taxpayer to a charitable organization. The amount  
18 allowed under this subdivision shall be equal to the amount  
19 deductible by the taxpayer under section 170(c) of the internal  
20 revenue code with respect to the qualified charitable  
21 distribution in the tax year in which the taxpayer makes the  
22 distribution to the qualified charitable organization, reduced by  
23 both the amount of the deduction for retirement or pension  
24 benefits claimed by the taxpayer under subdivision (f) (i), (ii),  
25 (iv), or (v) and by 2 times the total amount of credits claimed  
26 under sections 260 and 261 for the tax year. As used in this  
27 subdivision, "qualified charitable distribution" means a

1 distribution of assets to a qualified charitable organization by  
2 a taxpayer not more than 60 days after the date on which the  
3 taxpayer received the assets as a distribution from a retirement  
4 or pension plan described in subsection (8)(a). A distribution is  
5 to a qualified charitable organization if the distribution is  
6 made in any of the following circumstances:

7 (i) To an organization described in section 501(c)(3) of the  
8 internal revenue code except an organization that is controlled  
9 by a political party, an elected official or a candidate for an  
10 elective office.

11 (ii) To a charitable remainder annuity trust or a charitable  
12 remainder unitrust as defined in section 664(d) of the internal  
13 revenue code; to a pooled income fund as defined in section  
14 642(c)(5) of the internal revenue code; or for the issuance of a  
15 charitable gift annuity as defined in section 501(m)(5) of the  
16 internal revenue code. A trust, fund, or annuity described in  
17 this subparagraph is a qualified charitable organization only if  
18 no person holds any interest in the trust, fund, or annuity other  
19 than 1 or more of the following:

20 (A) The taxpayer who received the distribution from the  
21 retirement or pension plan.

22 (B) The spouse of an individual described in sub-  
23 subparagraph (A).

24 (C) An organization described in section 501(c)(3) of the  
25 internal revenue code.

26 (aa) A taxpayer who is a resident tribal member may deduct,  
27 to the extent included in adjusted gross income, all nonbusiness

1 income earned or received in the tax year and during the period  
2 in which an agreement entered into between the taxpayer's tribe  
3 and this state pursuant to section 30c of 1941 PA 122, MCL  
4 205.30c, is in full force and effect. As used in this  
5 subdivision:

6 (i) "Business income" means business income as defined in  
7 section 4 and apportioned under chapter 3.

8 (ii) "Nonbusiness income" means nonbusiness income as defined  
9 in section 14 and, to the extent not included in business income,  
10 all of the following:

11 (A) All income derived from wages whether the wages are  
12 earned within the agreement area or outside of the agreement  
13 area.

14 (B) All interest and passive dividends.

15 (C) All rents and royalties derived from real property  
16 located within the agreement area.

17 (D) All rents and royalties derived from tangible personal  
18 property, to the extent the personal property is utilized within  
19 the agreement area.

20 (E) Capital gains from the sale or exchange of real property  
21 located within the agreement area.

22 (F) Capital gains from the sale or exchange of tangible  
23 personal property located within the agreement area at the time  
24 of sale.

25 (G) Capital gains from the sale or exchange of intangible  
26 personal property.

27 (H) All pension income and benefits including, but not

1 limited to, distributions from a 401(k) plan, individual  
2 retirement accounts under section 408 of the internal revenue  
3 code, or a defined contribution plan, or payments from a defined  
4 benefit plan.

5 (I) All per capita payments by the tribe to resident tribal  
6 members, without regard to the source of payment.

7 (J) All gaming winnings.

8 (iii) "Resident tribal member" means an individual who meets  
9 all of the following criteria:

10 (A) Is an enrolled member of a federally recognized tribe.

11 (B) The individual's tribe has an agreement with this state  
12 pursuant to section 30c of 1941 PA 122, MCL 205.30c, that is in  
13 full force and effect.

14 (C) The individual's principal place of residence is located  
15 within the agreement area as designated in the agreement under  
16 sub-subparagraph (B).

17 (bb) For tax years that begin after December 31, 2006,  
18 deduct, to the extent included in adjusted gross income, all or a  
19 portion of the gain, as determined under this section, realized  
20 from an initial equity investment of not less than \$100,000.00  
21 made by the taxpayer before December 31, 2009, in a qualified  
22 business, if an amount equal to the sum of the taxpayer's basis  
23 in the investment as determined under the internal revenue code  
24 plus the gain, or a portion of that amount, is reinvested in an  
25 equity investment in a qualified business within 1 year after the  
26 sale or disposition of the investment in the qualified business.  
27 If the amount of the subsequent investment is less than the sum

1 of the taxpayer's basis from the prior equity investment plus the  
2 gain from the prior equity investment, the amount of a deduction  
3 under this section shall be reduced by the difference between the  
4 sum of the taxpayer's basis from the prior equity investment plus  
5 the gain from the prior equity investment and the subsequent  
6 investment. As used in this subdivision:

7 (i) "Advanced automotive, manufacturing, and materials  
8 technology" means any technology that involves 1 or more of the  
9 following:

10 (A) Materials with engineered properties created through the  
11 development of specialized process and synthesis technology.

12 (B) Nanotechnology, including materials, devices, or systems  
13 at the atomic, molecular, or macromolecular level, with a scale  
14 measured in nanometers.

15 (C) Microelectromechanical systems, including devices or  
16 systems integrating microelectronics with mechanical parts and a  
17 scale measured in micrometers.

18 (D) Improvements to vehicle safety, vehicle performance,  
19 vehicle production, or environmental impact, including, but not  
20 limited to, vehicle equipment and component parts.

21 (E) Any technology that involves an alternative energy  
22 vehicle or its components. "Alternative energy vehicle" means  
23 that term as defined in section 2 of the Michigan next energy  
24 authority act, 2002 PA 593, MCL 207.822.

25 (F) A new technology, device, or system that enhances or  
26 improves the manufacturing process of wood, timber, or  
27 agricultural-based products.

1 (G) Advanced computing or electronic device technology  
2 related to technology described under this subparagraph.

3 (H) Design, engineering, testing, or diagnostics related to  
4 technology described under this subparagraph.

5 (I) Product research and development related to technology  
6 described under this subparagraph.

7 (ii) "Advanced computing" means any technology used in the  
8 design and development of 1 or more of the following:

9 (A) Computer hardware and software.

10 (B) Data communications.

11 (C) Information technologies.

12 (iii) "Alternative energy technology" means applied research  
13 or commercialization of new or next generation technology in 1 or  
14 more of the following:

15 (A) Alternative energy technology as that term is defined in  
16 section 2 of the Michigan next energy authority act, 2002 PA 593,  
17 MCL 207.822.

18 (B) Devices or systems designed and used solely for the  
19 purpose of generating energy from agricultural crops, residue and  
20 waste generated from the production and processing of  
21 agricultural products, animal wastes, or food processing wastes,  
22 not including a conventional gasoline or diesel fuel engine or a  
23 retrofitted conventional gasoline or diesel fuel engine.

24 (C) A new technology, product, or system that permits the  
25 utilization of biomass for the production of specialty,  
26 commodity, or foundational chemicals or of novel or economical  
27 commodity materials through the application of biotechnology that

1 minimizes, complements, or replaces reliance on petroleum for the  
2 production.

3 (D) Advanced computing or electronic device technology  
4 related to technology described under this subparagraph.

5 (E) Design, engineering, testing, or diagnostics related to  
6 technology described under this subparagraph.

7 (F) Product research and development related to a technology  
8 described under this subparagraph.

9 (iv) "Competitive edge technology" means 1 or more of the  
10 following:

11 (A) Advanced automotive, manufacturing, and materials  
12 technology.

13 (B) Alternative energy technology.

14 (C) Homeland security and defense technology.

15 (D) Life sciences technology.

16 (v) "Electronic device technology" means any technology that  
17 involves microelectronics, semiconductors, electronic equipment,  
18 and instrumentation, radio frequency, microwave, and millimeter  
19 electronics; optical and optic-electrical devices; or data and  
20 digital communications and imaging devices.

21 (vi) "Homeland security and defense technology" means  
22 technology that assists in the assessment of threats or damage to  
23 the general population and critical infrastructure, protection  
24 of, defense against, or mitigation of the effects of foreign or  
25 domestic threats, disasters, or attacks, or support for crisis or  
26 response management, including, but not limited to, 1 or more of  
27 the following:



1 (A) Sensors, systems, processes, or equipment for  
2 communications, identification and authentication, screening,  
3 surveillance, tracking, and data analysis.

4 (B) Advanced computing or electronic device technology  
5 related to technology described under this subparagraph.

6 (C) Aviation technology including, but not limited to,  
7 avionics, airframe design, sensors, early warning systems, and  
8 services related to the technology described in this  
9 subparagraph.

10 (D) Design, engineering, testing, or diagnostics related to  
11 technology described under this subparagraph.

12 (E) Product research and development related to technology  
13 described under this subparagraph.

14 (vii) "Life sciences technology" means any technology derived  
15 from life sciences intended to improve human health or the  
16 overall quality of human life, including, but not limited to,  
17 systems, processes, or equipment for drug or gene therapies,  
18 biosensors, testing, medical devices or instrumentation with a  
19 therapeutic or diagnostic value, a pharmaceutical or other  
20 product that requires United States food and drug administration  
21 approval or registration prior to its introduction in the  
22 marketplace and is a drug or medical device as defined by the  
23 federal food, drug, and cosmetic act, 21 USC 301 to 399, or 1 or  
24 more of the following:

25 (A) Advanced computing or electronic device technology  
26 related to technology described under this subparagraph.

27 (B) Design, engineering, testing, or diagnostics related to

1 technology or the commercial manufacturing of technology  
2 described under this subparagraph.

3 (C) Product research and development related to technology  
4 described under this subparagraph.

5 (viii) "Life sciences" means science for the examination or  
6 understanding of life or life processes, including, but not  
7 limited to, all of the following:

8 (A) Bioengineering.

9 (B) Biomedical engineering.

10 (C) Genomics.

11 (D) Proteomics.

12 (E) Molecular and chemical ecology.

13 (F) Biotechnology, including any technology that uses living  
14 organisms, cells, macromolecules, microorganisms, or substances  
15 from living organisms to make or modify a product for useful  
16 purposes. Biotechnology or life sciences do not include any of  
17 the following:

18 (I) Activities prohibited under section 2685 of the public  
19 health code, 1978 PA 368, MCL 333.2685.

20 (II) Activities prohibited under section 2688 of the public  
21 health code, 1978 PA 368, MCL 333.2688.

22 (III) Activities prohibited under section 2690 of the public  
23 health code, 1978 PA 368, MCL 333.2690.

24 (IV) Activities prohibited under section 16274 of the public  
25 health code, 1978 PA 368, MCL 333.16274.

26 (V) Stem cell research with human embryonic tissue.

27 (ix) "Qualified business" means a business that complies with

1 all of the following:

2 (A) The business is a seed or early stage business as  
3 defined in section 3 of the Michigan early stage venture  
4 investment act of 2003, 2003 PA 296, MCL 125.2233.

5 (B) The business has its headquarters in this state, is  
6 domiciled in this state, or has a majority of its employees  
7 working a majority of their time in this state.

8 (C) The business has a preinvestment valuation of less than  
9 \$10,000,000.00.

10 (D) The business has been in existence less than 5 years.  
11 This sub-subparagraph does not apply to a business, the business  
12 activity of which is derived from research at an institution of  
13 higher education located within this state or an organization  
14 exempt from federal taxation under section 501c(3) of the  
15 internal revenue code and that is located within this state.

16 (E) The business is engaged only in competitive edge  
17 technology.

18 (F) The business is certified by the Michigan strategic fund  
19 as meeting the requirements of sub-subparagraphs (A) to (E) at  
20 the time of each proposed investment.

21 (2) The following personal exemptions multiplied by the  
22 number of personal or dependency exemptions allowable on the  
23 taxpayer's federal income tax return pursuant to the internal  
24 revenue code shall be subtracted in the calculation that  
25 determines taxable income:

26 (a) For a tax year beginning during 1987 ..... \$ 1,600.00.

1	(b) For a tax year beginning during 1988 .....	\$ 1,800.00.
2	(c) For a tax year beginning during 1989 .....	\$ 2,000.00.
3	(d) For a tax year beginning after 1989	
4	and before 1995 .....	\$ 2,100.00.
5	(e) For a tax year beginning during 1995	
6	or 1996 .....	\$ 2,400.00.
7	(f) Except as otherwise provided in	
8	subsection (7), for a tax year beginning after	
9	1996 and before 2008.....	\$ 2,500.00.
10	<b>(G) EXCEPT AS OTHERWISE PROVIDED IN SUB-</b>	
11	<b>SECTION (7), FOR A TAX YEAR BEGINNING AFTER 2007...</b>	<b>\$ 3,600.00.</b>

12 (3) A single additional exemption determined as follows  
13 shall be subtracted in the calculation that determines taxable  
14 income in each of the following circumstances:

15 (a) For tax years beginning after 1989 and before 2000,  
16 \$900.00 in each of the following circumstances:

17 (i) The taxpayer is a paraplegic, a quadriplegic, a  
18 hemiplegic, a person who is blind as defined in section 504, or a  
19 person who is totally and permanently disabled as defined in  
20 section 522.

21 (ii) The taxpayer is a deaf person as defined in section 2 of  
22 the deaf persons' interpreters act, 1982 PA 204, MCL 393.502.

23 (iii) The taxpayer is 65 years of age or older.

24 (iv) The return includes unemployment compensation that  
25 amounts to 50% or more of adjusted gross income.

26 (b) For tax years beginning after 1999, \$1,800.00 for each  
27 taxpayer and every dependent of the taxpayer who is 65 years of  
28 age or older. When a dependent of a taxpayer files an annual

1 return under this act, the taxpayer or dependent of the taxpayer,  
2 but not both, may claim the additional exemption allowed under  
3 this subdivision. As used in this subdivision and subdivision  
4 (c), "dependent" means that term as defined in section 30e.

5 (c) For tax years beginning after 1999, \$1,800.00 for each  
6 taxpayer and every dependent of the taxpayer who is a deaf person  
7 as defined in section 2 of the deaf persons' interpreters act,  
8 1982 PA 204, MCL 393.502; a paraplegic, a quadriplegic, or a  
9 hemiplegic; a person who is blind as defined in section 504; or a  
10 person who is totally and permanently disabled as defined in  
11 section 522. When a dependent of a taxpayer files an annual  
12 return under this act, the taxpayer or dependent of the taxpayer,  
13 but not both, may claim the additional exemption allowed under  
14 this subdivision.

15 (d) For tax years beginning after 1999, \$1,800.00 if the  
16 taxpayer's return includes unemployment compensation that amounts  
17 to 50% or more of adjusted gross income.

18 (4) For a tax year beginning after 1987, an individual with  
19 respect to whom a deduction under section 151 of the internal  
20 revenue code is allowable to another federal taxpayer during the  
21 tax year is not considered to have an allowable federal exemption  
22 for purposes of subsection (2), but may subtract \$500.00 in the  
23 calculation that determines taxable income for a tax year  
24 beginning in 1988, \$1,000.00 for a tax year beginning after 1988  
25 and before 2000, and \$1,500.00 for a tax year beginning after  
26 1999.

27 (5) A nonresident or a part-year resident is allowed that

1 proportion of an exemption or deduction allowed under subsection  
2 (2), (3), or (4) that the taxpayer's portion of adjusted gross  
3 income from Michigan sources bears to the taxpayer's total  
4 adjusted gross income.

5 (6) For a tax year beginning after 1987, in calculating  
6 taxable income, a taxpayer shall not subtract from adjusted gross  
7 income the amount of prizes won by the taxpayer under the  
8 McCauley-Traxler- Law-Bowman-McNeely lottery act, 1972 PA 239,  
9 MCL 432.1 to 432.47.

10 (7) For each tax year after the 1997 tax year **AND BEFORE**  
11 **2008**, the personal exemption allowed under subsection (2) shall  
12 be adjusted by multiplying the exemption for the tax year  
13 beginning in 1997 by a fraction, the numerator of which is the  
14 United States consumer price index for the state fiscal year  
15 ending in the tax year prior to the tax year for which the  
16 adjustment is being made and the denominator of which is the  
17 United States consumer price index for the 1995-96 state fiscal  
18 year. **FOR EACH TAX YEAR AFTER THE 2008 TAX YEAR, THE PERSONAL**  
19 **EXEMPTION ALLOWED UNDER SUBSECTION (2) SHALL BE ADJUSTED BY**  
20 **MULTIPLYING THE EXEMPTION FOR THE TAX YEAR BEGINNING IN 2008 BY A**  
21 **FRACTION, THE NUMERATOR OF WHICH IS THE UNITED STATES CONSUMER**  
22 **PRICE INDEX FOR THE STATE FISCAL YEAR ENDING IN THE TAX YEAR**  
23 **PRIOR TO THE TAX YEAR FOR WHICH THE ADJUSTMENT IS BEING MADE AND**  
24 **THE DENOMINATOR OF WHICH IS THE UNITED STATES CONSUMER PRICE**  
25 **INDEX FOR THE 2006-2007 STATE FISCAL YEAR.** The resultant product  
26 shall be rounded to the nearest \$100.00 increment. The personal  
27 exemption for the tax year shall be determined by adding \$200.00

1 to that rounded amount. As used in this section, "United States  
2 consumer price index" means the United States consumer price  
3 index for all urban consumers as defined and reported by the  
4 United States department of labor, bureau of labor statistics.  
5 For each year after the 2000 tax year, the exemptions allowed  
6 under subsection (3) shall be adjusted by multiplying the  
7 exemption amount under subsection (3) for the tax year beginning  
8 in 2000 by a fraction, the numerator of which is the United  
9 States consumer price index for the state fiscal year ending the  
10 tax year prior to the tax year for which the adjustment is being  
11 made and the denominator of which is the United States consumer  
12 price index for the 1998-1999 state fiscal year. The resultant  
13 product shall be rounded to the nearest \$100.00 increment.

14 (8) As used in subsection (1)(f), "retirement or pension  
15 benefits" means distributions from all of the following:

16 (a) Except as provided in subdivision (d), qualified pension  
17 trusts and annuity plans that qualify under section 401(a) of the  
18 internal revenue code, including all of the following:

19 (i) Plans for self-employed persons, commonly known as Keogh  
20 or HR 10 plans.

21 (ii) Individual retirement accounts that qualify under  
22 section 408 of the internal revenue code if the distributions are  
23 not made until the participant has reached 59-1/2 years of age,  
24 except in the case of death, disability, or distributions  
25 described by section 72(t)(2)(A)(iv) of the internal revenue code.

26 (iii) Employee annuities or tax-sheltered annuities purchased  
27 under section 403(b) of the internal revenue code by

1 organizations exempt under section 501(c)(3) of the internal  
2 revenue code, or by public school systems.

3 (iv) Distributions from a 401(k) plan attributable to  
4 employee contributions mandated by the plan or attributable to  
5 employer contributions.

6 (b) The following retirement and pension plans not qualified  
7 under the internal revenue code:

8 (i) Plans of the United States, state governments other than  
9 this state, and political subdivisions, agencies, or  
10 instrumentalities of this state.

11 (ii) Plans maintained by a church or a convention or  
12 association of churches.

13 (iii) All other unqualified pension plans that prescribe  
14 eligibility for retirement and predetermine contributions and  
15 benefits if the distributions are made from a pension trust.

16 (c) Retirement or pension benefits received by a surviving  
17 spouse if those benefits qualified for a deduction prior to the  
18 decedent's death. Benefits received by a surviving child are not  
19 deductible.

20 (d) Retirement and pension benefits do not include:

21 (i) Amounts received from a plan that allows the employee to  
22 set the amount of compensation to be deferred and does not  
23 prescribe retirement age or years of service. These plans  
24 include, but are not limited to, all of the following:

25 (A) Deferred compensation plans under section 457 of the  
26 internal revenue code.

27 (B) Distributions from plans under section 401(k) of the



1 internal revenue code other than plans described in subdivision  
2 (a) (iv) .

3 (C) Distributions from plans under section 403(b) of the  
4 internal revenue code other than plans described in subdivision  
5 (a) (iii) .

6 (ii) Premature distributions paid on separation, withdrawal,  
7 or discontinuance of a plan prior to the earliest date the  
8 recipient could have retired under the provisions of the plan.

9 (iii) Payments received as an incentive to retire early unless  
10 the distributions are from a pension trust.