

**SUBSTITUTE FOR
HOUSE BILL NO. 4337**

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.

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
5 prohibited from subjecting to a net income tax, to the extent
6 that the loss has been deducted in arriving at adjusted gross
7 income.

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

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

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

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

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

1 or exemption of a retirement or pension benefit received from a
2 public retirement system of or created by this state or any of
3 the political subdivisions of this state.

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

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

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

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

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

1 (vi) The amount determined to be the section 22 amount
2 eligible for the elderly and the permanently and totally disabled
3 credit provided in section 22 of the internal revenue code.

4 (g) Adjustments resulting from the application of section
5 271.

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

8 (i) Adjustments resulting from the allocation and
9 apportionment provisions of chapter 3.

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

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

17 (l) Deduct the following payments made by the taxpayer in the
18 tax year:

19 (i) The amount of payment made under an advance tuition
20 payment contract as provided in the Michigan education trust act,
21 1986 PA 316, MCL 390.1421 to 390.1442.

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

25 (A) The contract is certified and approved by the board of
26 directors of the Michigan education trust to provide equivalent
27 benefits and rights to purchasers and beneficiaries as an advance

1 tuition payment contract as described in subparagraph (i).

2 (B) The contract applies only for a state institution of
3 higher education as defined in the Michigan education trust act,
4 1986 PA 316, MCL 390.1421 to 390.1442, or a community or junior
5 college in Michigan.

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

9 (D) The contract is entered into after either of the
10 following:

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

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

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

1 contract, whichever is less.

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

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

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

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

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

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

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

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

27 (ii) The amount of a refund received in the tax year based on

1 taxes paid under the city income tax act, 1964 PA 284, MCL
2 141.501 to 141.787.

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

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

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

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

any way with and are kept separate from all other funds and assets of the taxpayer. As used in this subdivision:

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

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

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

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

(ii) The amount under section 30f.

(x) For tax years that begin after December 31, 1999, add, to the extent not included in adjusted gross income, the amount of money withdrawn by the taxpayer in the tax year from education savings accounts, not to exceed the total amount deducted under subdivision (w) in the tax year and all previous tax years, if

1 the withdrawal was not a qualified withdrawal as provided in the
2 Michigan education savings program act, 2000 PA 161, MCL 390.1471
3 to 390.1486. This subdivision does not apply to withdrawals that
4 are less than the sum of all contributions made to an education
5 savings account in all previous tax years for which no deduction
6 was claimed under subdivision (w), less any contributions for
7 which no deduction was claimed under subdivision (w) that were
8 withdrawn in all previous tax years.

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

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

1 under sections 260 and 261 for the tax year. As used in this
2 subdivision, "qualified charitable distribution" means a
3 distribution of assets to a qualified charitable organization by
4 a taxpayer not more than 60 days after the date on which the
5 taxpayer received the assets as a distribution from a retirement
6 or pension plan described in subsection ~~—(8)(a)—~~ **(9) (A)**. A
7 distribution is to a qualified charitable organization if the
8 distribution is made in any of the following circumstances:

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

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

22 (A) The taxpayer who received the distribution from the
23 retirement or pension plan.

24 (B) The spouse of an individual described in sub-
25 subparagraph (A).

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

1 (aa) A taxpayer who is a resident tribal member may deduct,
2 to the extent included in adjusted gross income, all nonbusiness
3 income earned or received in the tax year and during the period
4 in which an agreement entered into between the taxpayer's tribe
5 and this state pursuant to section 30c of 1941 PA 122, MCL
6 205.30c, is in full force and effect. As used in this
7 subdivision:

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

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

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

16 (B) All interest and passive dividends.

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

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

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

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

27 (G) Capital gains from the sale or exchange of intangible

1 personal property.

2 (H) All pension income and benefits including, but not
3 limited to, distributions from a 401(k) plan, individual
4 retirement accounts under section 408 of the internal revenue
5 code, or a defined contribution plan, or payments from a defined
6 benefit plan.

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

9 (J) All gaming winnings.

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

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

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

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

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

1 sale or disposition of the investment in the qualified business.
2 If the amount of the subsequent investment is less than the sum
3 of the taxpayer's basis from the prior equity investment plus the
4 gain from the prior equity investment, the amount of a deduction
5 under this section shall be reduced by the difference between the
6 sum of the taxpayer's basis from the prior equity investment plus
7 the gain from the prior equity investment and the subsequent
8 investment. As used in this subdivision:

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

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

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

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

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

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

27 (F) A new technology, device, or system that enhances or

1 improves the manufacturing process of wood, timber, or
2 agricultural-based products.

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

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

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

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

11 (A) Computer hardware and software.

12 (B) Data communications.

13 (C) Information technologies.

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

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

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

26 (C) A new technology, product, or system that permits the
27 utilization of biomass for the production of specialty,

1 commodity, or foundational chemicals or of novel or economical
2 commodity materials through the application of biotechnology that
3 minimizes, complements, or replaces reliance on petroleum for the
4 production.

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

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

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

11 (iv) "Competitive edge technology" means 1 or more of the
12 following:

13 (A) Advanced automotive, manufacturing, and materials
14 technology.

15 (B) Alternative energy technology.

16 (C) Homeland security and defense technology.

17 (D) Life sciences technology.

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

23 (vi) "Homeland security and defense technology" means
24 technology that assists in the assessment of threats or damage to
25 the general population and critical infrastructure, protection
26 of, defense against, or mitigation of the effects of foreign or
27 domestic threats, disasters, or attacks, or support for crisis or

1 response management, including, but not limited to, 1 or more of
2 the following:

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

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

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

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

14 (E) Product research and development related to technology
15 described under this subparagraph.

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

27 (A) Advanced computing or electronic device technology

1 related to technology described under this subparagraph.

2 (B) Design, engineering, testing, or diagnostics related to
3 technology or the commercial manufacturing of technology
4 described under this subparagraph.

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

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

10 (A) Bioengineering.

11 (B) Biomedical engineering.

12 (C) Genomics.

13 (D) Proteomics.

14 (E) Molecular and chemical ecology.

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

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

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

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

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

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

2 (ix) "Qualified business" means a business that complies with
3 all of the following:

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

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

10 (C) The business has a preinvestment valuation of less than
11 \$10,000,000.00.

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

18 (E) The business is engaged only in competitive edge
19 technology.

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

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

1	(a) For a tax year beginning during 1987 ...	\$ 1,600.00.
2	(b) For a tax year beginning during 1988 ...	\$ 1,800.00.
3	(c) For a tax year beginning during 1989 ...	\$ 2,000.00.
4	(d) For a tax year beginning after 1989	
5	and before 1995	\$ 2,100.00.
6	(e) For a tax year beginning during 1995	
7	or 1996	\$ 2,400.00.
8	(f) Except as otherwise provided in	
9	subsection —(7)— (8), for a tax year beginning	
10	after 1996	\$ 2,500.00.

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

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

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

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

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

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

25 (b) For tax years beginning after 1999, \$1,800.00 for each
 26 taxpayer and every dependent of the taxpayer who is 65 years of
 27 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) FOR TAX YEARS THAT BEGIN AFTER DECEMBER 31, 2005, A

1 TAXPAYER WHO, DURING THE TAX YEAR, PROVIDES PRIMARY CARE FOR HIS
2 OR HER ELIGIBLE PARENT OR GRANDPARENT MAY CLAIM 1 ADDITIONAL
3 EXEMPTION OF \$1,800.00 IF THE PRIMARY CARE IS PREVENTING THE
4 INSTITUTIONALIZATION OF THE ELIGIBLE PARENT OR GRANDPARENT. TO
5 CLAIM THE ADDITIONAL EXEMPTION ALLOWED UNDER THIS SUBSECTION, THE
6 TAXPAYER SHALL ATTACH AN AFFIDAVIT TO HIS OR HER ANNUAL RETURN ON
7 WHICH THE ADDITIONAL EXEMPTION IS CLAIMED THAT STATES THE NAME,
8 AGE, ADDRESS, AND SOCIAL SECURITY NUMBER OF THE ELIGIBLE PARENT
9 OR GRANDPARENT; THE RELATIONSHIP TO THE TAXPAYER; THE SPECIFIC
10 TYPES OF PRIMARY CARE THAT ARE PROVIDED; AND THE APPROXIMATE COST
11 OF THAT CARE. ONLY 1 ADDITIONAL EXEMPTION UNDER THIS SUBSECTION
12 IS ALLOWED FOR ANY ELIGIBLE PARENT OR GRANDPARENT FOR ANY TAX
13 YEAR. AS USED IN THIS SUBSECTION:

14 (A) "ELIGIBLE PARENT OR GRANDPARENT" MEANS A PARENT OR
15 GRANDPARENT OF THE TAXPAYER WHO MEETS THE FOLLOWING CRITERIA:

16 (i) HE OR SHE LIVES IN HIS OR HER OWN HOME.

17 (ii) HE OR SHE IS A SENIOR CITIZEN.

18 (iii) HE OR SHE IS ELIGIBLE FOR NURSING HOME CARE PAID FOR BY
19 MEDICAID.

20 (B) "GRANDPARENT" MEANS THE TAXPAYER'S GRANDPARENT OR
21 STEPGRANDPARENT.

22 (C) "PARENT" MEANS THE TAXPAYER'S MOTHER, FATHER,
23 STEPMOTHER, OR STEPFATHER.

24 (D) "PRIMARY CARE" MEANS ACTIVITIES OF DAILY LIVING PROVIDED
25 ON A DAILY BASIS BY THE TAXPAYER HIMSELF OR HERSELF OR BY A CHILD
26 WHO IS A DEPENDENT OF THE TAXPAYER AS FOLLOWS:

27 (i) PERSONAL CARE INCLUDING BATHING, DRESSING, AND HAIR AND

1 NAIL CARE.

2 (ii) MEAL PLANNING AND PREPARATION.

3 (iii) GROCERY SHOPPING AND DELIVERY AND OTHER ERRANDS.

4 (iv) ACCOMPANYING TO MEDICAL, DENTAL, AND OTHER HEALTH
5 RELATED APPOINTMENTS.

6 (v) HOUSEWORK, CHANGING BED LINENS, LAUNDRY, AND MENDING.

7 (vi) MEDICATION REMINDERS AND ADMINISTRATION.

8 (vii) COMPANIONSHIP, READING, HOBBIES, AND SOCIAL ACTIVITIES.

9 (viii) YARD WORK.

10 (ix) PET CARE AND EXERCISE AND VETERINARY APPOINTMENTS.

11 (x) HELP WITH BILL PAYING AND OTHER FINANCIAL MATTERS.

12 (E) "SENIOR CITIZEN" MEANS THAT TERM AS DEFINED IN SECTION
13 514.

14 (6) ~~—(5)—~~ A nonresident or a part-year resident is allowed
15 that proportion of an exemption or deduction allowed under
16 subsection (2), (3), ~~—or—~~ (4), OR (5) that the taxpayer's portion
17 of adjusted gross income from Michigan sources bears to the
18 taxpayer's total adjusted gross income.

19 (7) ~~—(6)—~~ For a tax year beginning after 1987, in
20 calculating taxable income, a taxpayer shall not subtract from
21 adjusted gross income the amount of prizes won by the taxpayer
22 under the McCauley-Traxler-Law-Bowman-McNeely lottery act, 1972
23 PA 239, MCL 432.1 to 432.47.

24 (8) ~~—(7)—~~ For each tax year after the 1997 tax year, the
25 personal exemption allowed under subsection (2) shall be adjusted
26 by multiplying the exemption for the tax year beginning in 1997
27 by a fraction, the numerator of which is the United States

1 consumer price index for the state fiscal year ending in the tax
2 year prior to the tax year for which the adjustment is being made
3 and the denominator of which is the United States consumer price
4 index for the 1995-96 state fiscal year. The resultant product
5 shall be rounded to the nearest \$100.00 increment. The personal
6 exemption for the tax year shall be determined by adding \$200.00
7 to that rounded amount. As used in this section, "United States
8 consumer price index" means the United States consumer price
9 index for all urban consumers as defined and reported by the
10 United States department of labor, bureau of labor statistics.
11 For each year after the 2000 tax year, the exemptions allowed
12 under subsection (3) shall be adjusted by multiplying the
13 exemption amount under subsection (3) for the tax year beginning
14 in 2000 by a fraction, the numerator of which is the United
15 States consumer price index for the state fiscal year ending the
16 tax year prior to the tax year for which the adjustment is being
17 made and the denominator of which is the United States consumer
18 price index for the 1998-1999 state fiscal year. The resultant
19 product shall be rounded to the nearest \$100.00 increment.

20 (9) ~~—(8)—~~ As used in subsection (1)(f), "retirement or
21 pension benefits" means distributions from all of the following:

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

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

27 (ii) Individual retirement accounts that qualify under

1 section 408 of the internal revenue code if the distributions are
2 not made until the participant has reached 59-1/2 years of age,
3 except in the case of death, disability, or distributions
4 described by section 72(t)(2)(A)(iv) of the internal revenue code.

5 (iii) Employee annuities or tax-sheltered annuities purchased
6 under section 403(b) of the internal revenue code by
7 organizations exempt under section 501(c)(3) of the internal
8 revenue code, or by public school systems.

9 (iv) Distributions from a 401(k) plan attributable to
10 employee contributions mandated by the plan or attributable to
11 employer contributions.

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

14 (i) Plans of the United States, state governments other than
15 this state, and political subdivisions, agencies, or
16 instrumentalities of this state.

17 (ii) Plans maintained by a church or a convention or
18 association of churches.

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

22 (c) Retirement or pension benefits received by a surviving
23 spouse if those benefits qualified for a deduction prior to the
24 decedent's death. Benefits received by a surviving child are not
25 deductible.

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

27 (i) Amounts received from a plan that allows the employee to

1 set the amount of compensation to be deferred and does not
2 prescribe retirement age or years of service. These plans
3 include, but are not limited to, all of the following:

4 (A) Deferred compensation plans under section 457 of the
5 internal revenue code.

6 (B) Distributions from plans under section 401(k) of the
7 internal revenue code other than plans described in subdivision
8 (a) (iv) .

9 (C) Distributions from plans under section 403(b) of the
10 internal revenue code other than plans described in subdivision
11 (a) (iii) .

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

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