

HOUSE BILL No. 4801

May 17, 2007, Introduced by Reps. Ward and Wenke and referred to the Committee on Oversight and Investigations.

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

1 taxes have been deducted in arriving at adjusted gross income.

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

7 (d) Deduct, to the extent included in adjusted gross income,
8 income derived from obligations, or the sale or exchange of
9 obligations, of the United States government that this state is
10 prohibited 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
14 premiums, 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
17 services 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 **THROUGH DECEMBER 31, 2006** from a
22 public retirement system of or created by this state or a
23 political subdivision of this state.

24 (ii) ~~Retirement~~ **THROUGH DECEMBER 31, 2006, RETIREMENT** or
25 pension benefits received from a public retirement system of or
26 created by another state or any of its political subdivisions if
27 the income tax laws of the other state permit a similar deduction

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

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

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

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

10 (B) For a joint return, the sum of not more than \$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 \$30,000.00 for a single return and
16 \$60,000.00 for a joint return. The maximum amounts allowed under
17 this subparagraph shall be reduced by the amount of the deduction
18 for retirement or pension benefits claimed under subparagraph (i)
19 or subdivision (e) and for tax years after the 1996 tax year by
20 the amount of a deduction claimed under subdivision (r). For the
21 1995 tax year and each tax year after 1995, the maximum amounts
22 allowed under this subparagraph shall be adjusted by the
23 percentage increase in the United States consumer price index for
24 the immediately preceding calendar year. The department shall
25 annualize the amounts provided in this subparagraph and
26 subparagraph (iv) as necessary for tax years that end after
27 September 30, 1994. As used in this subparagraph, "senior

1 citizen" means that term as defined in section 514.

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

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

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

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

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

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

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

20 (i) The amount of payment made under an advance tuition
21 payment contract as provided in the Michigan education trust act,
22 1986 PA 316, MCL 390.1421 to 390.1442.

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

26 (A) The contract is certified and approved by the board of
27 directors of the Michigan education trust to provide equivalent

1 benefits and rights to purchasers and beneficiaries as an advance
2 tuition payment contract as described in subparagraph (i).

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

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

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

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

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

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

1 deduction taken under subdivision (l) for payment made under that
2 contract, whichever is less.

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

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

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

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

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

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

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

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

1 (ii) The amount of a refund received in the tax year based on
2 taxes paid under the city income tax act, 1964 PA 284, MCL
3 141.501 to 141.787.

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

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

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

18 (v) For tax years that begin on and after January 1, 1994,
19 deduct, to the extent included in adjusted gross income, any
20 amount, and any interest earned on that amount, received in the
21 tax year by a taxpayer who is a Holocaust victim as a result of a
22 settlement of claims against any entity or individual for any
23 recovered asset pursuant to the German act regulating unresolved
24 property claims, also known as Gesetz zur Regelung offener
25 Vermögensfragen, as a result of the settlement of the action
26 entitled In re: Holocaust victim assets litigation, CV-96-4849,
27 CV-96-5161, and CV-97-0461 (E.D. NY), or as a result of any

1 similar action if the income and interest are not commingled in
2 any way with and are kept separate from all other funds and
3 assets of the taxpayer. As used in this subdivision:

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

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

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

17 (i) The total of all contributions made on and after October
18 1, 2000 by the taxpayer in the tax year less qualified
19 withdrawals made in the tax year to education savings accounts
20 pursuant to the Michigan education savings program act, 2000 PA
21 161, MCL 390.1471 to 390.1486, not to exceed \$5,000.00 for a
22 single return or \$10,000.00 for a joint return per tax year.

23 (ii) The amount under section 30f.

24 (x) For tax years that begin after December 31, 1999, add,
25 to the extent not included in adjusted gross income, the amount
26 of money withdrawn by the taxpayer in the tax year from education
27 savings accounts, not to exceed the total amount deducted under

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

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

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

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

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

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

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

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

27 (C) An organization described in section 501(c)(3) of the

1 internal revenue code.

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

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

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

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

17 (B) All interest and passive dividends.

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

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

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

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

1 (G) Capital gains from the sale or exchange of intangible
2 personal property.

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

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

10 (J) All gaming winnings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12 (A) Computer hardware and software.

13 (B) Data communications.

14 (C) Information technologies.

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

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

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

27 (C) A new technology, product, or system that permits the

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

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

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

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

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

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

16 (B) Alternative energy technology.

17 (C) Homeland security and defense technology.

18 (D) Life sciences technology.

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

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

1 domestic threats, disasters, or attacks, or support for crisis or
2 response management, including, but not limited to, 1 or more of
3 the following:

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

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

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

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

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

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

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

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

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

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

11 (A) Bioengineering.

12 (B) Biomedical engineering.

13 (C) Genomics.

14 (D) Proteomics.

15 (E) Molecular and chemical ecology.

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

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

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

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

27 (IV) Activities prohibited under section 16274 of the public

1 health code, 1978 PA 368, MCL 333.16274.

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

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

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

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

11 (C) The business has a preinvestment valuation of less than
12 \$10,000,000.00.

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

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

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

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

1 determines taxable income:

- 2 (a) For a tax year beginning during 1987 \$ 1,600.00.
- 3 (b) For a tax year beginning during 1988 \$ 1,800.00.
- 4 (c) For a tax year beginning during 1989 \$ 2,000.00.
- 5 (d) For a tax year beginning after 1989
- 6 and before 1995 \$ 2,100.00.
- 7 (e) For a tax year beginning during 1995
- 8 or 1996 \$ 2,400.00.
- 9 (f) Except as otherwise provided in
- 10 subsection (7), for a tax year beginning after
- 11 1996 \$ 2,500.00.

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

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

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

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

19 (4) For a tax year beginning after 1987, an individual with
20 respect to whom a deduction under section 151 of the internal
21 revenue code is allowable to another federal taxpayer during the
22 tax year is not considered to have an allowable federal exemption
23 for purposes of subsection (2), but may subtract \$500.00 in the
24 calculation that determines taxable income for a tax year
25 beginning in 1988, \$1,000.00 for a tax year beginning after 1988
26 and before 2000, and \$1,500.00 for a tax year beginning after
27 1999.

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

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

11 (7) For each tax year after the 1997 tax year, the personal
12 exemption allowed under subsection (2) shall be adjusted by
13 multiplying the exemption for the tax year beginning in 1997 by a
14 fraction, the numerator of which is the United States consumer
15 price index for the state fiscal year ending in the tax year
16 prior to the tax year for which the adjustment is being made and
17 the denominator of which is the United States consumer price
18 index for the 1995-96 state fiscal year. The resultant product
19 shall be rounded to the nearest \$100.00 increment. The personal
20 exemption for the tax year shall be determined by adding \$200.00
21 to that rounded amount. As used in this section, "United States
22 consumer price index" means the United States consumer price
23 index for all urban consumers as defined and reported by the
24 United States department of labor, bureau of labor statistics.
25 For each year after the 2000 tax year, the exemptions allowed
26 under subsection (3) shall be adjusted by multiplying the
27 exemption amount under subsection (3) for the tax year beginning

1 in 2000 by a fraction, the numerator of which is the United
2 States consumer price index for the state fiscal year ending the
3 tax year prior to the tax year for which the adjustment is being
4 made and the denominator of which is the United States consumer
5 price index for the 1998-1999 state fiscal year. The resultant
6 product shall be rounded to the nearest \$100.00 increment.

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

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

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

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

19 (iii) Employee annuities or tax-sheltered annuities purchased
20 under section 403(b) of the internal revenue code by
21 organizations exempt under section 501(c)(3) of the internal
22 revenue code, or by public school systems.

23 (iv) Distributions from a 401(k) plan attributable to
24 employee contributions mandated by the plan or attributable to
25 employer contributions.

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

1 (i) Plans of the United States, state governments other than
2 this state, and political subdivisions, agencies, or
3 instrumentalities of this state.

4 (ii) Plans maintained by a church or a convention or
5 association of churches.

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

9 (c) Retirement or pension benefits received by a surviving
10 spouse if those benefits qualified for a deduction prior to the
11 decedent's death. Benefits received by a surviving child are not
12 deductible.

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

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

18 (A) Deferred compensation plans under section 457 of the
19 internal revenue code.

20 (B) Distributions from plans under section 401(k) of the
21 internal revenue code other than plans described in subdivision
22 (a) (iv) .

23 (C) Distributions from plans under section 403(b) of the
24 internal revenue code other than plans described in subdivision
25 (a) (iii) .

26 (ii) Premature distributions paid on separation, withdrawal,
27 or discontinuance of a plan prior to the earliest date the

- 1 recipient could have retired under the provisions of the plan.
- 2 (iii) Payments received as an incentive to retire early unless
- 3 the distributions are from a pension trust.