

# HOUSE BILL No. 5352

September 10, 2009, Introduced by Rep. Cushingberry and referred to the Committee on Tax Policy.

A bill to amend 1967 PA 281, entitled "Income tax act of 1967," by amending sections 30, 51, and 272 (MCL 206.30, 206.51, and 206.272), section 30 as amended by 2007 PA 154, section 51 as amended by 2007 PA 94, and section 272 as added by 2006 PA 372.

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

1           Sec. 30. (1) "Taxable income" means, for a person other than a  
2 corporation, estate, or trust, adjusted gross income as defined in  
3 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 less

1 related expenses not deducted in computing adjusted gross income  
2 because of section 265(a)(1) of the internal revenue code.

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

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

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

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

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

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

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

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

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

7 (iv) Beginning on and after January 1, 2007, retirement or  
8 pension benefits not deductible under subparagraph (i) or  
9 subdivision (e) from any other retirement or pension system or  
10 benefits from a retirement annuity policy in which payments are  
11 made for life to a senior citizen, to a maximum of \$42,240.00 for a  
12 single return and \$84,480.00 for a joint return. The maximum  
13 amounts allowed under this subparagraph shall be reduced by the  
14 amount of the deduction for retirement or pension benefits claimed  
15 under subparagraph (i) or subdivision (e) and by the amount of a  
16 deduction claimed under subdivision (r). For the 2008 tax year and  
17 each tax year after 2008, the maximum amounts allowed under this  
18 subparagraph shall be adjusted by the percentage increase in the  
19 United States consumer price index for the immediately preceding  
20 calendar year. The department shall annualize the amounts provided  
21 in this subparagraph as necessary. As used in this subparagraph,  
22 "senior citizen" means that term as defined in section 514.

23 (v) The amount determined to be the section 22 amount eligible  
24 for the elderly and the permanently and totally disabled credit  
25 provided in section 22 of the internal revenue code.

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

27 (h) Adjustments with respect to estate and trust income as

1 provided in section 36.

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

4 (j) Deduct political contributions as described in section 4  
5 of the Michigan campaign finance act, 1976 PA 388, MCL 169.204, or  
6 2 USC 431, not in excess of \$50.00 per annum, or \$100.00 per annum  
7 for a joint return.

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

11 (l) Deduct the following payments made by the taxpayer in the  
12 tax year:

13 (i) The amount of payment made under an advance tuition payment  
14 contract as provided in the Michigan education trust act, 1986 PA  
15 316, MCL 390.1421 to 390.1442.

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

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

22 (B) The contract applies only for a state institution of  
23 higher education as defined in the Michigan education trust act,  
24 1986 PA 316, MCL 390.1421 to 390.1442, or a community or junior  
25 college in Michigan.

26 (C) The contract provides for enrollment by the contract's  
27 qualified beneficiary in not less than 4 years after the date on

1 which the contract is entered into.

2 (D) The contract is entered into after either of the  
3 following:

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

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

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

21 (n) Deduct from the taxable income of a purchaser the amount  
22 included as income to the purchaser under the internal revenue code  
23 after the advance tuition payment contract entered into under the  
24 Michigan education trust act, 1986 PA 316, MCL 390.1421 to  
25 390.1442, is terminated because the qualified beneficiary attends  
26 an institution of postsecondary education other than either a state  
27 institution of higher education or an institution of postsecondary

1 education located outside this state with which a state institution  
2 of higher education has reciprocity.

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

6 (p) Deduct a net operating loss deduction for the taxable year  
7 as determined under section 172 of the internal revenue code  
8 subject to the modifications under section 172(b)(2) of the  
9 internal revenue code and subject to the allocation and  
10 apportionment provisions of chapter 3 of this act for the taxable  
11 year in which the loss was incurred.

12 (q) Deduct, to the extent included in adjusted gross income,  
13 benefits from a discriminatory self-insurance medical expense  
14 reimbursement plan.

15 (r) Beginning on and after January 1, 2007, a taxpayer who is  
16 a senior citizen may deduct to the extent included in adjusted  
17 gross income, interest, dividends, and capital gains received in  
18 the tax year not to exceed \$9,420.00 for a single return and  
19 \$18,840.00 for a joint return. The maximum amounts allowed under  
20 this subdivision shall be reduced by the amount of a deduction  
21 claimed for retirement benefits under subdivision (e) or a  
22 deduction claimed under subdivision (f) (i), (ii), (iv), or (v). For  
23 the 2008 tax year and each tax year after 2008, the maximum amounts  
24 allowed under this subdivision shall be adjusted by the percentage  
25 increase in the United States consumer price index for the  
26 immediately preceding calendar year. The department shall annualize  
27 the amounts provided in this subdivision as necessary. As used in

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

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

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

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

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

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

21 (u) Deduct the amount calculated under section 30d.

22 (v) Deduct, to the extent included in adjusted gross income,  
23 any amount, and any interest earned on that amount, received in the  
24 tax year by a taxpayer who is a Holocaust victim as a result of a  
25 settlement of claims against any entity or individual for any  
26 recovered asset pursuant to the German act regulating unresolved  
27 property claims, also known as Gesetz zur Regelung offener

1 Vermogensfragen, as a result of the settlement of the action  
2 entitled In re: Holocaust victim assets litigation, CV-96-4849, CV-  
3 96-5161, and CV-97-0461 (E.D. NY), or as a result of any similar  
4 action if the income and interest are not commingled in any way  
5 with and are kept separate from all other funds and assets of the  
6 taxpayer. As used in this subdivision:

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

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

16 (w) Deduct, to the extent not deducted in determining adjusted  
17 gross income, both of the following:

18 (i) Contributions made by the taxpayer in the tax year less  
19 qualified withdrawals made in the tax year from education savings  
20 accounts, calculated on a per education savings account basis,  
21 pursuant to the Michigan education savings program act, 2000 PA  
22 161, MCL 390.1471 to 390.1486, not to exceed a total deduction of  
23 \$5,000.00 for a single return or \$10,000.00 for a joint return per  
24 tax year. The amount calculated under this subparagraph for each  
25 education savings account shall not be less than zero.

26 (ii) The amount under section 30f.

27 (x) Add, to the extent not included in adjusted gross income,



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

12 (y) Deduct, to the extent included in adjusted gross income,  
13 the amount of a distribution from individual retirement accounts  
14 that qualify under section 408 of the internal revenue code if the  
15 distribution is used to pay qualified higher education expenses as  
16 that term is defined in the Michigan education savings program act,  
17 2000 PA 161, MCL 390.1471 to 390.1486.

18 (z) Deduct, to the extent included in adjusted gross income,  
19 an amount equal to the qualified charitable distribution made in  
20 the 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(e)~~ 170 of the internal  
23 revenue code with respect to the qualified charitable distribution  
24 in the tax year in which the taxpayer makes the distribution to the  
25 qualified charitable organization, reduced by both the amount of  
26 the deduction for retirement or pension benefits claimed by the  
27 taxpayer under subdivision (f) (i), (ii), (iv), or (v) and by 2 times

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

10 (i) To an organization described in section 501(c)(3) of the  
11 internal revenue code except an organization that is controlled by  
12 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 this  
20 subparagraph is a qualified charitable organization only if no  
21 person holds any interest in the trust, fund, or annuity other than  
22 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-subparagraph

26 (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, to  
3 the extent included in adjusted gross income, all nonbusiness  
4 income earned or received in the tax year and during the period in  
5 which an agreement entered into between the taxpayer's tribe and  
6 this state pursuant to section 30c of 1941 PA 122, MCL 205.30c, is  
7 in full force and effect. As used in this 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 earned  
14 within the agreement area or outside of the agreement area.

15 (B) All interest and passive dividends.

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

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

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

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

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

1 (H) All pension income and benefits including, but not limited  
2 to, distributions from a 401(k) plan, individual retirement  
3 accounts under section 408 of the internal revenue code, or a  
4 defined contribution plan, or payments from a defined 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 all  
9 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 sub-  
16 subparagraph (B).

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

1 from the prior equity investment plus the gain from the prior  
2 equity investment, the amount of a deduction under this section  
3 shall be reduced by the difference between the sum of the  
4 taxpayer's basis from the prior equity investment plus the gain  
5 from the prior equity investment and the subsequent investment. As  
6 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 vehicle  
22 or its components. "Alternative energy vehicle" means that term as  
23 defined in section 2 of the Michigan next energy authority act,  
24 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 related  
2 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 or  
13 commercialization of new or next generation technology in 1 or more  
14 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 agricultural  
21 products, animal wastes, or food processing wastes, not including a  
22 conventional gasoline or diesel fuel engine or a retrofitted  
23 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, commodity,  
26 or foundational chemicals or of novel or economical commodity  
27 materials through the application of biotechnology that minimizes,

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

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

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

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

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

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

12 (B) Alternative energy technology.

13 (C) Homeland security and defense technology.

14 (D) Life sciences technology.

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

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

27 (A) Sensors, systems, processes, or equipment for

1 communications, identification and authentication, screening,  
2 surveillance, tracking, and data analysis.

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

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

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

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

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

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

24 (B) Design, engineering, testing, or diagnostics related to  
25 technology or the commercial manufacturing of technology described  
26 under this subparagraph.

27 (C) Product research and development related to technology



1 described under this subparagraph.

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

5 (A) Bioengineering.

6 (B) Biomedical engineering.

7 (C) Genomics.

8 (D) Proteomics.

9 (E) Molecular and chemical ecology.

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

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

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

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

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

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

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

26 (A) The business is a seed or early stage business as defined  
27 in section 3 of the Michigan early stage venture investment act of

1 2003, 2003 PA 296, MCL 125.2233.

2 (B) The business has its headquarters in this state, is  
3 domiciled in this state, or has a majority of its employees working  
4 a majority of their time in this state.

5 (C) The business has a preinvestment valuation of less than  
6 \$10,000,000.00.

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

13 (E) The business is engaged only in competitive edge  
14 technology.

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

18 (2) Except as otherwise provided in subsection (7), a personal  
19 exemption of \$2,500.00 multiplied by the number of personal or  
20 dependency exemptions allowable on the taxpayer's federal income  
21 tax return pursuant to the internal revenue code shall be  
22 subtracted in the calculation that determines taxable income.

23 (3) Except as otherwise provided in subsection (7), a single  
24 additional exemption determined as follows shall be subtracted in  
25 the calculation that determines taxable income in each of the  
26 following circumstances:

27 (a) \$1,800.00 for each taxpayer and every dependent of the

1 taxpayer who is 65 years of age or older. When a dependent of a  
2 taxpayer files an annual return under this act, the taxpayer or  
3 dependent of the taxpayer, but not both, may claim the additional  
4 exemption allowed under this subdivision. As used in this  
5 subdivision and subdivision (c), "dependent" means that term as  
6 defined in section 30e.

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

16 (c) \$1,800.00 if the taxpayer's return includes unemployment  
17 compensation that amounts to 50% or more of adjusted gross income.

18 (d) For tax years beginning after 2007, \$250.00 for each  
19 taxpayer and every dependent of the taxpayer who is a qualified  
20 disabled veteran. When a dependent of a taxpayer files an annual  
21 return under this act, the taxpayer or dependent of the taxpayer,  
22 but not both, may claim the additional exemption allowed under this  
23 subdivision. As used in this subdivision:

24 (i) "Qualified disabled veteran" means a veteran with a  
25 service-connected disability.

26 (ii) "Service-connected disability" means a disability incurred  
27 or aggravated in the line of duty in the active military, naval, or

1 air service as described in 38 USC 101(16).

2 (iii) "Veteran" means a person who served in the active  
3 military, naval, marine, coast guard, or air service and who was  
4 discharged or released from his or her service with an honorable or  
5 general discharge.

6 (4) An individual with respect to whom a deduction under  
7 section 151 of the internal revenue code is allowable to another  
8 federal taxpayer during the tax year is not considered to have an  
9 allowable federal exemption for purposes of subsection (2), but may  
10 subtract \$1,500.00 in the calculation that determines taxable  
11 income for a tax year.

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

17 (6) In calculating taxable income, a taxpayer shall not  
18 subtract from adjusted gross income the amount of prizes won by the  
19 taxpayer under the McCauley-Traxler-Law-Bowman-McNeely lottery act,  
20 1972 PA 239, MCL 432.1 to 432.47.

21 (7) For each tax year, the personal exemption allowed under  
22 subsection (2) shall be adjusted by multiplying the exemption for  
23 the tax year beginning in 1997 by a fraction, the numerator of  
24 which is the United States consumer price index for the state  
25 fiscal year ending in the tax year prior to the tax year for which  
26 the adjustment is being made and the denominator of which is the  
27 United States consumer price index for the 1995-96 state fiscal

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

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

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

21 (i) Plans for self-employed persons, commonly known as Keogh or  
22 HR10 plans.

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

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

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

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

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

13           (ii) Plans maintained by a church or a convention or  
14 association of churches.

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

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

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

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

27           (A) Deferred compensation plans under section 457 of the

1 internal revenue code.

2 (B) Distributions from plans under section 401(k) of the  
3 internal revenue code other than plans described in subdivision  
4 (a) (iv) .

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

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

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

13 Sec. 51. (1) For receiving, earning, or otherwise acquiring  
14 income from any source whatsoever, there is levied and imposed upon  
15 the taxable income of every person other than a corporation a tax  
16 at the following rates in the following circumstances:

17 (a) Before May 1, 1994, 4.6%.

18 (b) After April 30, 1994 and before January 1, 2000, 4.4%.

19 (c) For tax years that begin on and after January 1, 2000 and  
20 before January 1, 2002, 4.2%.

21 (d) For tax years that begin on and after January 1, 2002 and  
22 before January 1, 2003, 4.1%.

23 (e) On and after January 1, 2003 and before July 1, 2004,  
24 4.0%.

25 (f) On and after July 1, 2004 and before October 1, 2007,  
26 3.9%.

27 (g) On and after October 1, 2007 and before October 1, 2011,

1 4.35%.

2 (h) Beginning on October 1, 2011 and each October 1 after  
3 2011, the maximum rate under this subsection shall be reduced by  
4 0.1 each year until the rate is 3.95%.

5 (i) On and after October 1, 2015, 3.9%.

6 (2) The following percentages of the net revenues collected  
7 under this section shall be deposited in the state school aid fund  
8 created in section 11 of article IX of the state constitution of  
9 1963:

10 (a) Beginning October 1, 1994 and before October 1, 1996,  
11 14.4% of the gross collections before refunds from the tax levied  
12 under this section.

13 (b) After September 30, 1996 and before January 1, 2000, 23.0%  
14 of the gross collections before refunds from the tax levied under  
15 this section.

16 (c) Beginning January 1, 2000, that percentage of the gross  
17 collections before refunds from the tax levied under this section  
18 that is equal to 1.012% divided by the income tax rate levied under  
19 this section.

20 (3) The department shall annualize rates provided in  
21 subsection (1) as necessary for tax years that end after April 30,  
22 1994. The applicable annualized rate shall be imposed upon the  
23 taxable income of every person other than a corporation for those  
24 tax years.

25 (4) The taxable income of a nonresident shall be computed in  
26 the same manner that the taxable income of a resident is computed,  
27 subject to the allocation and apportionment provisions of this act.



1           (5) A resident beneficiary of a trust whose taxable income  
2 includes all or part of an accumulation distribution by a trust, as  
3 defined in section 665 of the internal revenue code, shall be  
4 allowed a credit against the tax otherwise due under this act. The  
5 credit shall be all or a proportionate part of any tax paid by the  
6 trust under this act for any preceding taxable year that would not  
7 have been payable if the trust had in fact made distribution to its  
8 beneficiaries at the times and in the amounts specified in section  
9 666 of the internal revenue code. The credit shall not reduce the  
10 tax otherwise due from the beneficiary to an amount less than would  
11 have been due if the accumulation distribution were excluded from  
12 taxable income.

13           (6) The taxable income of a resident who is required to  
14 include income from a trust in his or her federal income tax return  
15 under the provisions of 26 USC 671 to 679, shall include items of  
16 income and deductions from the trust in taxable income to the  
17 extent required by this act with respect to property owned  
18 outright.

19           (7) It is the intention of this section that the income  
20 subject to tax of every person other than corporations shall be  
21 computed in like manner and be the same as provided in the internal  
22 revenue code subject to adjustments specifically provided for in  
23 this act.

24           (8) There is appropriated to the department of treasury for  
25 the 2006-2007 state fiscal year the sum of \$100,000.00 to begin  
26 implementing the requirements of ~~the amendatory act that added this~~  
27 ~~subsection~~ **2007 PA 94**. Any portion of this amount under this

1 section that is not expended in the 2006-2007 state fiscal year  
2 shall not lapse to the general fund but shall be carried forward in  
3 a work project account that is in compliance with section 451a of  
4 the management and budget act, 1984 PA 431, MCL 18.1451a, for the  
5 following state fiscal year.

6 (9) As used in this section:

7 (a) "Person other than a corporation" means a resident or  
8 nonresident individual or any of the following:

9 (i) A partner in a partnership as defined in the internal  
10 revenue code.

11 (ii) A beneficiary of an estate or a trust as defined in the  
12 internal revenue code.

13 (iii) An estate or trust as defined in the internal revenue  
14 code.

15 (b) "Taxable income" means taxable income as defined in this  
16 act subject to the applicable source and attribution rules  
17 contained in this act.

18 Sec. 272. (1) ~~For the following tax years that begin after~~  
19 ~~December 31, 2007, a~~ **A** taxpayer may credit against the tax imposed  
20 by this act an amount equal to the specified percentages of the  
21 credit the taxpayer is allowed to claim as a credit under section  
22 32 of the internal revenue code for a tax year on a return filed  
23 under this act for the same tax year **AS FOLLOWS FOR THE FOLLOWING**  
24 **TAX YEARS:**

25 (a) For tax years that begin after December 31, 2007 and  
26 before January 1, 2009, 10%.

27 (b) For tax years that begin after December 31, 2008, 20%.

1           (2) If the credit allowed by this section exceeds the tax  
2 liability of the taxpayer for the tax year, the state treasurer  
3 shall refund the excess to the taxpayer without interest, except as  
4 provided in section 30 of 1941 PA 122, MCL 205.30.