

SENATE BILL No. 16

January 14, 2009, Introduced by Senator HARDIMAN and referred to the Committee on Health Policy.

A bill to amend 1967 PA 281, entitled
"Income tax act of 1967,"
by amending section 30 (MCL 206.30), as amended by 2007 PA 154.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27 (j) Deduct political contributions as described in section 4

1 of the Michigan campaign finance act, 1976 PA 388, MCL 169.204, or
2 2 USC 431, not in excess of \$50.00 per annum, or \$100.00 per annum
3 for a joint return.

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

7 (l) Deduct the following payments made by the taxpayer in the
8 tax year:

9 (i) The amount of payment made under an advance tuition payment
10 contract as provided in the Michigan education trust act, 1986 PA
11 316, MCL 390.1421 to 390.1442.

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

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

18 (B) The contract applies only for a state institution of
19 higher education as defined in the Michigan education trust act,
20 1986 PA 316, MCL 390.1421 to 390.1442, or a community or junior
21 college in Michigan.

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

25 (D) The contract is entered into after either of the
26 following:

27 (I) The purchaser has had his or her offer to enter into an

1 advance tuition payment contract rejected by the board of directors
2 of the Michigan education trust, if the board determines that the
3 trust cannot accept an unlimited number of enrollees upon an
4 actuarially sound basis.

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

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

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

26 (o) Add, to the extent deducted in determining adjusted gross
27 income, the net operating loss deduction under section 172 of the

1 internal revenue code.

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

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

11 (r) Beginning on and after January 1, 2007, a taxpayer who is
12 a senior citizen may deduct to the extent included in adjusted
13 gross income, interest, dividends, and capital gains received in
14 the tax year not to exceed \$9,420.00 for a single return and
15 \$18,840.00 for a joint return. The maximum amounts allowed under
16 this subdivision shall be reduced by the amount of a deduction
17 claimed for retirement benefits under subdivision (e) or a
18 deduction claimed under subdivision (f) (i), (ii), (iv), or (v). For
19 the 2008 tax year and each tax year after 2008, the maximum amounts
20 allowed under this subdivision shall be adjusted by the percentage
21 increase in the United States consumer price index for the
22 immediately preceding calendar year. The department shall annualize
23 the amounts provided in this subdivision as necessary. As used in
24 this subdivision, "senior citizen" means that term as defined in
25 section 514.

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

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

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

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

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

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

18 (v) Deduct, to the extent included in adjusted gross income,
19 any 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, CV-
26 96-5161, and CV-97-0461 (E.D. NY), or as a result of any similar
27 action if the income and interest are not commingled in any way

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

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

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

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

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

22 (ii) The amount under section 30f.

23 (x) Add, to the extent not included in adjusted gross income,
24 the amount of money withdrawn by the taxpayer in the tax year from
25 education savings accounts, not to exceed the total amount deducted
26 under subdivision (w) in the tax year and all previous tax years,
27 if the withdrawal was not a qualified withdrawal as provided in the

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

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

14 (z) Deduct, to the extent included in adjusted gross income,
15 an amount equal to the qualified charitable distribution made in
16 the tax year by a taxpayer to a charitable organization. The amount
17 allowed under this subdivision shall be equal to the amount
18 deductible by the taxpayer under section 170(c) of the internal
19 revenue code with respect to the qualified charitable distribution
20 in the tax year in which the taxpayer makes the distribution to the
21 qualified charitable organization, reduced by both the amount of
22 the deduction for retirement or pension benefits claimed by the
23 taxpayer under subdivision (f) (i), (ii), (iv), or (v) and by 2 times
24 the total amount of credits claimed under sections 260 and 261 for
25 the tax year. As used in this subdivision, "qualified charitable
26 distribution" means a distribution of assets to a qualified
27 charitable organization by a taxpayer not more than 60 days after

1 the date on which the taxpayer received the assets as a
2 distribution from a retirement or pension plan described in
3 subsection (8)(a). A distribution is to a qualified charitable
4 organization if the distribution is made in any of the following
5 circumstances:

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

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

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

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

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

25 (aa) A taxpayer who is a resident tribal member may deduct, to
26 the extent included in adjusted gross income, all nonbusiness
27 income earned or received in the tax year and during the period in

1 which an agreement entered into between the taxpayer's tribe and
2 this state pursuant to section 30c of 1941 PA 122, MCL 205.30c, is
3 in full force and effect. As used in this subdivision:

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

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

9 (A) All income derived from wages whether the wages are earned
10 within the agreement area or outside of the agreement area.

11 (B) All interest and passive dividends.

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

14 (D) All rents and royalties derived from tangible personal
15 property, to the extent the personal property is utilized within
16 the agreement area.

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

19 (F) Capital gains from the sale or exchange of tangible
20 personal property located within the agreement area at the time of
21 sale.

22 (G) Capital gains from the sale or exchange of intangible
23 personal property.

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

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

3 (J) All gaming winnings.

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

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

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

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

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

1 from the prior equity investment and the subsequent investment. As
2 used in this subdivision:

3 (i) "Advanced automotive, manufacturing, and materials
4 technology" means any technology that involves 1 or more of the
5 following:

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

8 (B) Nanotechnology, including materials, devices, or systems
9 at the atomic, molecular, or macromolecular level, with a scale
10 measured in nanometers.

11 (C) Microelectromechanical systems, including devices or
12 systems integrating microelectronics with mechanical parts and a
13 scale measured in micrometers.

14 (D) Improvements to vehicle safety, vehicle performance,
15 vehicle production, or environmental impact, including, but not
16 limited to, vehicle equipment and component parts.

17 (E) Any technology that involves an alternative energy vehicle
18 or its components. "Alternative energy vehicle" means that term as
19 defined in section 2 of the Michigan next energy authority act,
20 2002 PA 593, MCL 207.822.

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

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

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

1 (I) Product research and development related to technology
2 described under this subparagraph.

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

5 (A) Computer hardware and software.

6 (B) Data communications.

7 (C) Information technologies.

8 (iii) "Alternative energy technology" means applied research or
9 commercialization of new or next generation technology in 1 or more
10 of the following:

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

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

20 (C) A new technology, product, or system that permits the
21 utilization of biomass for the production of specialty, commodity,
22 or foundational chemicals or of novel or economical commodity
23 materials through the application of biotechnology that minimizes,
24 complements, or replaces reliance on petroleum for the production.

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

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

1 technology described under this subparagraph.

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

4 (iv) "Competitive edge technology" means 1 or more of the
5 following:

6 (A) Advanced automotive, manufacturing, and materials
7 technology.

8 (B) Alternative energy technology.

9 (C) Homeland security and defense technology.

10 (D) Life sciences technology.

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

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

23 (A) Sensors, systems, processes, or equipment for
24 communications, identification and authentication, screening,
25 surveillance, tracking, and data analysis.

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

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

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

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

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

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

20 (B) Design, engineering, testing, or diagnostics related to
21 technology or the commercial manufacturing of technology described
22 under this subparagraph.

23 (C) Product research and development related to technology
24 described under this subparagraph.

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

1 (A) Bioengineering.

2 (B) Biomedical engineering.

3 (C) Genomics.

4 (D) Proteomics.

5 (E) Molecular and chemical ecology.

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

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

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

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

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

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

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

22 (A) The business is a seed or early stage business as defined
23 in section 3 of the Michigan early stage venture investment act of
24 2003, 2003 PA 296, MCL 125.2233.

25 (B) The business has its headquarters in this state, is
26 domiciled in this state, or has a majority of its employees working
27 a majority of their time in this state.

1 (C) The business has a preinvestment valuation of less than
2 \$10,000,000.00.

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

9 (E) The business is engaged only in competitive edge
10 technology.

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

14 (CC) FOR TAX YEARS THAT BEGIN AFTER DECEMBER 31, 2008, DEDUCT,
15 TO THE EXTENT NOT DEDUCTED IN DETERMINING ADJUSTED GROSS INCOME,
16 ALL OF THE FOLLOWING:

17 (i) FOR TAX YEARS THAT BEGIN AFTER DECEMBER 31, 2008, DEDUCT,
18 TO THE EXTENT NOT DEDUCTED IN DETERMINING ADJUSTED GROSS INCOME,
19 EITHER OF THE FOLLOWING:

20 (A) PREMIUMS PAID BY THE TAXPAYER IN THE TAX YEAR TO OBTAIN
21 LONG-TERM CARE BENEFITS, NOT TO EXCEED \$5,000.00 FOR A SINGLE
22 RETURN OR \$10,000.00 FOR A JOINT RETURN PER TAX YEAR. AS USED IN
23 THIS SUBDIVISION, "LONG-TERM CARE BENEFITS" MEANS COVERAGE UNDER A
24 LONG-TERM CARE POLICY, CERTIFICATE, OR RIDER ISSUED BY AN INSURER
25 PURSUANT TO THE INSURANCE CODE OF 1956, 1956 PA 218, MCL 500.100 TO
26 500.8302.

27 (B) THE TOTAL OF ALL CONTRIBUTIONS MADE AFTER DECEMBER 31,

1 2008 BY THE TAXPAYER IN THE TAX YEAR TO A LONG-TERM HEALTH CARE
2 SAVINGS ACCOUNT PURSUANT TO THE LONG-TERM HEALTH CARE SAVINGS
3 ACCOUNT ACT, NOT TO EXCEED \$5,000.00 FOR A SINGLE RETURN OR
4 \$10,000.00 FOR A JOINT RETURN PER TAX YEAR.

5 (ii) INTEREST EARNED IN THE TAX YEAR ON THE TAXPAYER'S LONG-
6 TERM HEALTH CARE SAVINGS ACCOUNT IF THE CONTRIBUTIONS TO THAT
7 ACCOUNT WERE DEDUCTIBLE UNDER SUBPARAGRAPH (i) (B) .

8 (iii) DISTRIBUTIONS THAT ARE QUALIFIED WITHDRAWALS FROM A LONG-
9 TERM HEALTH CARE SAVINGS ACCOUNT TO THE ACCOUNT HOLDER OF THAT
10 LONG-TERM HEALTH CARE SAVINGS ACCOUNT. THE TAXPAYER SHALL ATTACH A
11 LETTER TO THE ANNUAL RETURN REQUIRED UNDER THIS ACT ON WHICH A
12 DEDUCTION UNDER THIS SUBPARAGRAPH IS CLAIMED THAT STATES THE
13 PURPOSE FOR WHICH THE WITHDRAWAL WAS MADE. AS USED IN THIS
14 SUBDIVISION AND SUBDIVISION (DD) :

15 (A) "ACCOUNT HOLDER", "ELIGIBLE EXPENSES", AND "LONG-TERM
16 HEALTH CARE SAVINGS ACCOUNT" MEAN THOSE TERMS AS DEFINED IN THE
17 LONG-TERM HEALTH CARE SAVINGS ACCOUNT ACT.

18 (B) "QUALIFIED WITHDRAWAL" MEANS A WITHDRAWAL FROM A LONG-TERM
19 HEALTH CARE SAVINGS ACCOUNT THAT IS USED TO PAY ELIGIBLE EXPENSES
20 AS DESCRIBED IN SECTION 4(2) OF THE LONG-TERM HEALTH CARE SAVINGS
21 ACCOUNT ACT.

22 (DD) FOR TAX YEARS THAT BEGIN AFTER DECEMBER 31, 2008, ADD, TO
23 THE EXTENT NOT INCLUDED IN ADJUSTED GROSS INCOME, THE AMOUNT OF
24 MONEY WITHDRAWN BY THE TAXPAYER IN THE TAX YEAR FROM LONG-TERM
25 HEALTH CARE SAVINGS ACCOUNTS IF THE WITHDRAWAL WAS NOT A QUALIFIED
26 WITHDRAWAL AS PROVIDED IN THE LONG-TERM HEALTH CARE SAVINGS ACCOUNT
27 ACT.

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

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

10 (a) \$1,800.00 for each taxpayer and every dependent of the
11 taxpayer who is 65 years of age or older. When a dependent of a
12 taxpayer files an annual return under this act, the taxpayer or
13 dependent of the taxpayer, but not both, may claim the additional
14 exemption allowed under this subdivision. As used in this
15 subdivision and subdivision (c), "dependent" means that term as
16 defined in section 30e.

17 (b) \$1,800.00 for each taxpayer and every dependent of the
18 taxpayer who is a deaf person as defined in section 2 of the deaf
19 persons' interpreters act, 1982 PA 204, MCL 393.502; a paraplegic,
20 a quadriplegic, or a hemiplegic; a person who is blind as defined
21 in section 504; or a person who is totally and permanently disabled
22 as defined in section 522. When a dependent of a taxpayer files an
23 annual return under this act, the taxpayer or dependent of the
24 taxpayer, but not both, may claim the additional exemption allowed
25 under this subdivision.

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

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

7 (i) "Qualified disabled veteran" means a veteran with a
8 service-connected disability.

9 (ii) "Service-connected disability" means a disability incurred
10 or aggravated in the line of duty in the active military, naval, or
11 air service as described in 38 USC 101(16).

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

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

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

27 (6) In calculating taxable income, a taxpayer shall not

1 subtract from adjusted gross income the amount of prizes won by the
2 taxpayer under the McCauley-Traxler-Law-Bowman-McNeely lottery act,
3 1972 PA 239, MCL 432.1 to 432.47.

4 (7) For each tax year, the personal exemption allowed under
5 subsection (2) shall be adjusted by multiplying the exemption for
6 the tax year beginning in 1997 by a fraction, the numerator of
7 which is the United States consumer price index for the state
8 fiscal year ending in the tax year prior to the tax year for which
9 the adjustment is being made and the denominator of which is the
10 United States consumer price index for the 1995-96 state fiscal
11 year. The resultant product shall be rounded to the nearest \$100.00
12 increment. The personal exemption for the tax year shall be
13 determined by adding \$200.00 to that rounded amount. As used in
14 this section, "United States consumer price index" means the United
15 States consumer price index for all urban consumers as defined and
16 reported by the United States department of labor, bureau of labor
17 statistics. For each tax year, the exemptions allowed under
18 subsection (3) shall be adjusted by multiplying the exemption
19 amount under subsection (3) for the tax year by a fraction, the
20 numerator of which is the United States consumer price index for
21 the state fiscal year ending the tax year prior to the tax year for
22 which the adjustment is being made and the denominator of which is
23 the United States consumer price index for the 1998-1999 state
24 fiscal year. The resultant product shall be rounded to the nearest
25 \$100.00 increment.

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

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

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

6 (ii) Individual retirement accounts that qualify under section
7 408 of the internal revenue code if the distributions are not made
8 until the participant has reached 59-1/2 years of age, except in
9 the case of death, disability, or distributions described by
10 section 72(t)(2)(A)(iv) of the internal revenue code.

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

15 (iv) Distributions from a 401(k) plan attributable to employee
16 contributions mandated by the plan or attributable to employer
17 contributions.

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

20 (i) Plans of the United States, state governments other than
21 this state, and political subdivisions, agencies, or
22 instrumentalities of this state.

23 (ii) Plans maintained by a church or a convention or
24 association of churches.

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

1 (c) Retirement or pension benefits received by a surviving
2 spouse if those benefits qualified for a deduction prior to the
3 decedent's death. Benefits received by a surviving child are not
4 deductible.

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

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

10 (A) Deferred compensation plans under section 457 of the
11 internal revenue code.

12 (B) Distributions from plans under section 401(k) of the
13 internal revenue code other than plans described in subdivision
14 (a) (iv) .

15 (C) Distributions from plans under section 403(b) of the
16 internal revenue code other than plans described in subdivision
17 (a) (iii) .

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

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

23 Enacting section 1. This amendatory act does not take effect
24 unless Senate Bill No. 15

25 of the 95th Legislature is enacted into law.