

# HOUSE BILL No. 4122

February 2, 1999, Introduced by Reps. Vear, Toy, Mortimer, Caul, Kuipers, Ehardt, Bisbee and Raczkowski and referred to the Committee on Tax Policy.

A bill to amend 1967 PA 281, entitled "Income tax act of 1967," by amending section 30 (MCL 206.30), as amended by 1997 PA 86; and to repeal acts and parts of acts.

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

1       Sec. 30. (1) "Taxable income" means, for a person other  
2 than a corporation, estate, or trust, adjusted gross income as  
3 defined in the internal revenue code subject to the following  
4 adjustments and the adjustments provided in subsections (2) to  
5 (4):

6       (a) Add gross interest income and dividends derived from  
7 obligations or securities of states other than Michigan, in the  
8 same amount that has been excluded from adjusted gross income  
9 less related expenses not deducted in computing adjusted gross

1 income because of section 265(a)(1) of the internal revenue  
2 code.

3 (b) Add taxes on or measured by income to the extent the  
4 taxes 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 pro-  
7 hibited 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 obli-  
11 gations, of the United States government that this state is pro-  
12 hibited 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 premi-  
16 ums, 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 serv-  
19 ices 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  
4 the political subdivisions of this state.

5 (iii) Social security benefits as defined in section 86 of  
6 the 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  
10 \$7,500.00.

11 (B) For a joint return, the sum of not more than  
12 \$10,000.00.

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

1 subparagraph (iv) as necessary for tax years that end after  
2 September 30, 1994. As used in this subparagraph, "senior  
3 citizen" means that term as defined in section 514.

4 (vi) The amount determined to be the section 22 amount eli-  
5 gible for the elderly and THE permanently and totally disabled  
6 credit provided in section 22 of the internal revenue code.

7 (g) Adjustments resulting from the application of section  
8 271.

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

11 (i) Adjustments resulting from the allocation and apportion-  
12 ment provisions of chapter 3.

13 (j) Deduct political contributions as described in section 4  
14 of the Michigan campaign finance act, 1976 PA 388, MCL 169.204,  
15 or section 301 of title III of the federal election campaign act  
16 of 1971, Public Law 92-225, 2 U.S.C. 431, not in excess of \$50.00  
17 per annum, or \$100.00 per annum for a joint return.

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

21 (l) Deduct the following payments made by the taxpayer in  
22 the tax year:

23 (i) The amount of payment made under an advance tuition pay-  
24 ment contract as provided in the Michigan education trust act,  
25 1986 PA 316, MCL 390.1421 to 390.1444.

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

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

8           (B) The contract applies only for a state institution of  
9 higher education as defined in the Michigan education trust act,  
10 1986 PA 316, MCL 390.1421 to 390.1444, or a community or junior  
11 college in Michigan.

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

15           (D) The contract is entered into after either of the  
16 following:

17           (I) The purchaser has had his or her offer to enter into an  
18 advance tuition payment contract rejected by the board of direc-  
19 tors of the Michigan education trust, if the board determines  
20 that the trust cannot accept an unlimited number of enrollees  
21 upon an actuarially sound basis.

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

25           (m) If an advance tuition payment contract under the  
26 Michigan education trust act, 1986 PA 316, MCL 390.1421 to  
27 390.1444, or another contract for which the payment was

1 deductible under subdivision (l) is terminated and the qualified  
2 beneficiary under that contract does not attend a university,  
3 college, junior or community college, or other institution of  
4 higher education, add the amount of a refund received by the tax-  
5 payer as a result of that termination or the amount of the deduc-  
6 tion taken under subdivision (l) for payment made under that con-  
7 tract, whichever is less.

8 (n) Deduct from the taxable income of a purchaser the amount  
9 included as income to the purchaser under the internal revenue  
10 code after the advance tuition payment contract entered into  
11 under the Michigan education trust act, 1986 PA 316, MCL 390.1421  
12 to 390.1444, is terminated because the qualified beneficiary  
13 attends an institution of postsecondary education other than  
14 either a state institution of higher education or an institution  
15 of postsecondary education located outside this state with which  
16 a state institution of higher education has reciprocity.

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

20 (p) Deduct a net operating loss deduction for the taxable  
21 year as determined under section 172 of the internal revenue code  
22 subject to the modifications under section 172(b)(2) of the  
23 internal revenue code and subject to the allocation and appor-  
24 tionment provisions of chapter 3 of this act for the taxable year  
25 in which the loss was incurred.

26 (q) For a tax year beginning after 1986, deduct, to the  
27 extent included in adjusted gross income, benefits from a

1 discriminatory self-insurance medical expense reimbursement  
2 plan.

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

1 years that end after September 30, 1994. As used in this  
2 subdivision, "senior citizen" means that term as defined in sec-  
3 tion 514.

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

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

8 (ii) The amount of a refund received in the tax year based  
9 on taxes paid under the city income tax act, 1964 PA 284, MCL  
10 141.501 to 141.787.

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

15 (t) Add the amount paid by the state on behalf of the tax-  
16 payer in the tax year to repay the outstanding principal on a  
17 loan taken on which the taxpayer defaulted that was to fund an  
18 advance tuition payment contract entered into under the Michigan  
19 education trust act, 1986 PA 316, MCL 390.1421 to 390.1444, if  
20 the cost of the advance tuition payment contract was deducted  
21 under subdivision (l) and was financed with a Michigan education  
22 trust secured loan.

23 (u) ~~For the 1998 tax year and each tax year after the 1998~~  
24 ~~tax year, deduct the amount calculated under section 30d. DEDUCT~~  
25 THE "CHILD CARE ACT OF 1997" DEDUCTION PROVIDED UNDER THIS  
26 SUBDIVISION. FOR THE 1998 TAX YEAR AND EACH TAX YEAR AFTER THE  
27 1998 TAX YEAR, A TAXPAYER MAY DEDUCT THE FOLLOWING AMOUNTS:

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1 (i) AN AMOUNT EQUAL TO \$600.00 MULTIPLIED BY THE NUMBER OF  
2 EXEMPTIONS CLAIMED BY THE TAXPAYER UNDER SUBSECTION (2) IN THE  
3 TAX YEAR FOR DEPENDENTS OF THE TAXPAYER WHO ARE CHILDREN YOUNGER  
4 THAN 7 YEARS OF AGE ON THE LAST DAY OF THE TAX YEAR IN WHICH THE  
5 DEDUCTION UNDER THIS SUBDIVISION IS CLAIMED.

6 (ii) AN AMOUNT EQUAL TO \$300.00 MULTIPLIED BY THE NUMBER OF  
7 EXEMPTIONS CLAIMED BY THE TAXPAYER UNDER SUBSECTION (2) IN THE  
8 TAX YEAR FOR DEPENDENTS OF THE TAXPAYER WHO ARE CHILDREN AND WHO  
9 ARE AT LEAST 7 YEARS OF AGE AND YOUNGER THAN 13 YEARS OF AGE ON  
10 THE LAST DAY OF THE TAX YEAR IN WHICH THE DEDUCTION UNDER THIS  
11 SUBDIVISION IS CLAIMED.

12 (v) FOR THE 1999 TAX YEAR AND EACH TAX YEAR AFTER THE 1999  
13 TAX YEAR, DEDUCT, TO THE EXTENT NOT DEDUCTED IN DETERMINING  
14 ADJUSTED GROSS INCOME, AN AMOUNT EQUAL TO THE HEALTH INSURANCE  
15 PREMIUMS PAID BY THE TAXPAYER IN THE TAX YEAR.

16 (2) The following personal exemptions multiplied by the  
17 number of personal or dependency exemptions allowable on the  
18 taxpayer's federal income tax return pursuant to the internal  
19 revenue code shall be subtracted in the calculation that deter-  
20 mines taxable income:

- 21 (a) For a tax year beginning during 1987..... \$1,600.00.
- 22 (b) For a tax year beginning during 1988..... \$1,800.00.
- 23 (c) For a tax year beginning during 1989..... \$2,000.00.
- 24 (d) For a tax year beginning after 1989 and before  
25 1995..... \$2,100.00.
- 26 (e) For a tax year beginning during 1995 or 1996 \$2,400.00.

1 (f) Except as otherwise provided in subsection (7),  
2 for a tax year beginning after 1996..... \$2,500.00.

3 (3) A single additional exemption of \$1,400.00 for a tax  
4 year beginning during 1987, \$1,200.00 for a tax year beginning  
5 during 1988, \$1,000.00 for a tax year beginning during 1989, and  
6 \$900.00 for a tax year beginning after 1989 shall be subtracted  
7 in the calculation that determines taxable income in each of the  
8 following circumstances:

9 (a) The taxpayer is a paraplegic, a quadriplegic, a hemiple-  
10 gic, a person who is blind as defined in section 504, or a PERSON  
11 WHO IS totally and permanently disabled ~~person~~ as defined in  
12 section 522.

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

15 (c) The taxpayer is 65 years of age or older.

16 (d) The return includes unemployment compensation that  
17 amounts to 50% or more of adjusted gross income.

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

25 (5) A nonresident or a part-year resident is allowed that  
26 proportion of an exemption or deduction allowed under subsection  
27 (2), (3), or (4) that the taxpayer's portion of adjusted gross

1 income from Michigan sources bears to the taxpayer's total  
2 adjusted gross income.

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

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

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

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

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

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

9 (iii) Employee annuities or tax-sheltered annuities pur-  
10 chased under section 403(b) of the internal revenue code by  
11 organizations exempt under section 501(c)(3) of the internal rev-  
12 enue code, or by public school systems.

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

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

18 (i) Plans of the United States, state governments other than  
19 this state, and political subdivisions, agencies, or instrumen-  
20 talities of this state.

21 (ii) Plans maintained by a church or a convention or associ-  
22 ation of churches.

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

26 (c) Retirement or pension benefits received by a surviving  
27 spouse if those benefits qualified for a deduction prior to the

1 decedent's death. Benefits received by a surviving child are not  
2 deductible.

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

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

8 (A) Deferred compensation plans under section 457 of the  
9 internal revenue code.

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

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

16 (ii) Premature distributions paid on separation, withdrawal,  
17 or discontinuance of a plan prior to the earliest date the recip-  
18 ient could have retired under the provisions of the plan.

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

21 Enacting section 1. Section 30d of the income tax act of  
22 1967, 1967 PA 281, MCL 206.30d, is repealed.