

**SUBSTITUTE FOR
HOUSE BILL NO. 6263**

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.

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

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

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

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

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

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

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

1 public retirement system of or created by this state or any of the
2 political subdivisions of this state.

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

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

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

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

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

27 (i) Adjustments resulting from the allocation and

1 apportionment provisions of chapter 3.

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

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

9 (l) Deduct the following payments made by the taxpayer in the
10 tax year:

11 (i) **FOR THE 2008 TAX YEAR AND EACH TAX YEAR AFTER 2008, THE**
12 **AMOUNT OF A CHARITABLE CONTRIBUTION MADE TO THE ADVANCE TUITION**
13 **PAYMENT FUND CREATED UNDER SECTION 9 OF THE MICHIGAN EDUCATION**
14 **TRUST ACT, 1986 PA 316, MCL 390.1429.**

15 (ii) ~~(i)~~—The amount of payment made under an advance tuition
16 payment contract as provided in the Michigan education trust act,
17 1986 PA 316, MCL 390.1421 to 390.1442.

18 (iii) ~~(ii)~~—The amount of payment made under a contract with a
19 private sector investment manager that meets all of the following
20 criteria:

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

25 (B) The contract applies only for a state institution of
26 higher education as defined in the Michigan education trust act,
27 1986 PA 316, MCL 390.1421 to 390.1442, or a community or junior

1 college in Michigan.

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

5 (D) The contract is entered into after either of the
6 following:

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

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

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

24 (n) Deduct from the taxable income of a purchaser the amount
25 included as income to the purchaser under the internal revenue code
26 after the advance tuition payment contract entered into under the
27 Michigan education trust act, 1986 PA 316, MCL 390.1421 to

1 390.1442, is terminated because the qualified beneficiary attends
2 an institution of postsecondary education other than either a state
3 institution of higher education or an institution of postsecondary
4 education located outside this state with which a state institution
5 of higher education has reciprocity.

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

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

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

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

1 increase in the United States consumer price index for the
2 immediately preceding calendar year. The department shall annualize
3 the amounts provided in this subdivision as necessary. As used in
4 this subdivision, "senior citizen" means that term as defined in
5 section 514.

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

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

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

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

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

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

25 (v) Deduct, to the extent included in adjusted gross income,
26 any amount, and any interest earned on that amount, received in the
27 tax year by a taxpayer who is a Holocaust victim as a result of a

1 settlement of claims against any entity or individual for any
2 recovered asset pursuant to the German act regulating unresolved
3 property claims, also known as Gesetz zur Regelung offener
4 Vermögensfragen, as a result of the settlement of the action
5 entitled In re: Holocaust victim assets litigation, CV-96-4849, CV-
6 96-5161, and CV-97-0461 (E.D. NY), or as a result of any similar
7 action if the income and interest are not commingled in any way
8 with and are kept separate from all other funds and assets of the
9 taxpayer. As used in this subdivision:

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

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

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

21 (i) Contributions made by the taxpayer in the tax year less
22 qualified withdrawals made in the tax year from education savings
23 accounts, calculated on a per education savings account basis,
24 pursuant to the Michigan education savings program act, 2000 PA
25 161, MCL 390.1471 to 390.1486, not to exceed a total deduction of
26 \$5,000.00 for a single return or \$10,000.00 for a joint return per
27 tax year. The amount calculated under this subparagraph for each

1 education savings account shall not be less than zero.

2 (ii) The amount under section 30f.

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

15 (y) Deduct, to the extent included in adjusted gross income,
16 the amount of a distribution from individual retirement accounts
17 that qualify under section 408 of the internal revenue code if the
18 distribution is used to pay qualified higher education expenses as
19 that term is defined in the Michigan education savings program act,
20 2000 PA 161, MCL 390.1471 to 390.1486.

21 (z) Deduct, to the extent included in adjusted gross income,
22 an amount equal to the qualified charitable distribution made in
23 the tax year by a taxpayer to a charitable organization. The amount
24 allowed under this subdivision shall be equal to the amount
25 deductible by the taxpayer under section 170(c) of the internal
26 revenue code with respect to the qualified charitable distribution
27 in the tax year in which the taxpayer makes the distribution to the

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

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

17 (ii) To a charitable remainder annuity trust or a charitable
18 remainder unitrust as defined in section 664(d) of the internal
19 revenue code; to a pooled income fund as defined in section
20 642(c) (5) of the internal revenue code; or for the issuance of a
21 charitable gift annuity as defined in section 501(m) (5) of the
22 internal revenue code. A trust, fund, or annuity described in this
23 subparagraph is a qualified charitable organization only if no
24 person holds any interest in the trust, fund, or annuity other than
25 1 or more of the following:

26 (A) The taxpayer who received the distribution from the
27 retirement or pension plan.

1 (B) The spouse of an individual described in sub-subparagraph
2 (A).

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

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

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

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

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

18 (B) All interest and passive dividends.

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

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

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

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

1 sale.

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

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

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

10 (J) All gaming winnings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12 (A) Computer hardware and software.

13 (B) Data communications.

14 (C) Information technologies.

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

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

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

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

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

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

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

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

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

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

15 (B) Alternative energy technology.

16 (C) Homeland security and defense technology.

17 (D) Life sciences technology.

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

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

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

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

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

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

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

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

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

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

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

1 technology or the commercial manufacturing of technology described
2 under this subparagraph.

3 (C) Product research and development related to technology
4 described under this subparagraph.

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

8 (A) Bioengineering.

9 (B) Biomedical engineering.

10 (C) Genomics.

11 (D) Proteomics.

12 (E) Molecular and chemical ecology.

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

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

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

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

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

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

27 (ix) "Qualified business" means a business that complies with

1 all of the following:

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

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

8 (C) The business has a preinvestment valuation of less than
9 \$10,000,000.00.

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

16 (E) The business is engaged only in competitive edge
17 technology.

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

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

26 (3) Except as otherwise provided in subsection (7), a single
27 additional exemption determined as follows shall be subtracted in

1 the calculation that determines taxable income in each of the
2 following circumstances:

3 (a) \$1,800.00 for each taxpayer and every dependent of the
4 taxpayer who is 65 years of age or older. When a dependent of a
5 taxpayer files an annual return under this act, the taxpayer or
6 dependent of the taxpayer, but not both, may claim the additional
7 exemption allowed under this subdivision. As used in this
8 subdivision and subdivision (c), "dependent" means that term as
9 defined in section 30e.

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

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

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

27 (i) "Qualified disabled veteran" means a veteran with a

1 service-connected disability.

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

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

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

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

20 (6) In calculating taxable income, a taxpayer shall not
21 subtract from adjusted gross income the amount of prizes won by the
22 taxpayer under the McCauley-Traxler-Law-Bowman-McNeely lottery act,
23 1972 PA 239, MCL 432.1 to 432.47.

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

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

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

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

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

26 (ii) Individual retirement accounts that qualify under section
27 408 of the internal revenue code if the distributions are not made

1 until the participant has reached 59-1/2 years of age, except in
2 the case of death, disability, or distributions described by
3 section 72(t)(2)(A)(iv) of the internal revenue code.

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

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

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

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

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

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

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

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

26 (i) Amounts received from a plan that allows the employee to
27 set the amount of compensation to be deferred and does not

1 prescribe retirement age or years of service. These plans include,
2 but are not limited to, all of the following:

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

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

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

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

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