

# HOUSE BILL NO. 4961

September 16, 2025, Introduced by Rep. Bollin and referred to Committee on Finance.

A bill to amend 1967 PA 281, entitled  
"Income tax act of 1967,"  
by amending sections 12, 30, 607, and 805 (MCL 206.12, 206.30,  
206.607, and 206.805), sections 12, 607, and 805 as amended by 2024  
PA 177 and section 30 as amended by 2023 PA 4.

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

1       Sec. 12. (1) "Flow-through entity" means an S corporation,  
 2       partnership, limited partnership, limited liability partnership, or  
 3       limited liability company. Flow-through entity does not include a  
 4       publicly traded partnership as that term is defined in section 7704  
 5       of the internal revenue code that has equity securities registered  
 6       with the securities and exchange commission under section 12 of  
 7       title I of the securities exchange act of 1934, 15 USC 78/, or a  
 8       person treated as a corporation under section 339.

9       (2) "Gross income" means gross income as defined in the  
 10      internal revenue code.

11      (3) "Internal revenue code" means the United States internal  
 12      revenue code of 1986 in effect on January 1, ~~2018~~**2025** or at the  
 13      option of the taxpayer, in effect for the tax year.

14      (4) "Member of a flow-through entity" means a shareholder of  
 15      an S corporation; a partner in a partnership or limited  
 16      partnership; or a member of a limited liability company.

17      (5) "Nonresident member" means any of the following that is a  
 18      member of a flow-through entity:

19      (a) An individual who is not domiciled in this state.

20      (b) A nonresident estate or trust.

21      (c) A flow-through entity with a nonresident member.

22      Sec. 30. (1) "Taxable income" means, for a person other than a  
 23      corporation, estate, or trust, adjusted gross income as defined in  
 24      the internal revenue code subject to the following adjustments  
 25      under this section:

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

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

2 (b) Add taxes on or measured by income to the extent the taxes  
3 have been deducted in arriving at adjusted gross income including  
4 any direct or indirect allocated share of taxes paid by a flow-  
5 through entity under part 4.

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

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

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

20 (i) Compensation, including retirement or pension benefits,  
21 received for services in the Armed Forces of the United States.

22 (ii) Retirement or pension benefits under the railroad  
23 retirement act of 1974, 45 USC 231 to 231v.

24 (iii) ~~Beginning January 1, 2012, retirement~~ **Retirement** or  
25 pension benefits received for services in the Michigan National  
26 Guard.

27 (f) Deduct the following to the extent included in adjusted  
28 gross income subject to the limitations and restrictions set forth  
29 in subsection (9), (10), or (11), as applicable:

1           (i) Retirement or pension benefits received from a federal  
2 public retirement system or from a public retirement system of or  
3 created by this state or a political subdivision of this state.

4           (ii) Retirement or pension benefits received from a public  
5 retirement system of or created by another state or any of its  
6 political subdivisions if the income tax laws of the other state  
7 permit a similar deduction or exemption or a reciprocal deduction  
8 or exemption of a retirement or pension benefit received from a  
9 public retirement system of or created by this state or any of the  
10 political subdivisions of this state.

11           (iii) Social Security benefits as defined in section 86 of the  
12 internal revenue code.

13           (iv) Beginning on and after January 1, 2007, retirement or  
14 pension benefits not deductible under subparagraph (i) or  
15 subdivision (e) from any other retirement or pension system or  
16 benefits from a retirement annuity policy in which payments are  
17 made for life to a senior citizen, to a maximum of \$42,240.00 for a  
18 single return and \$84,480.00 for a joint return. The maximum  
19 amounts allowed under this subparagraph shall be reduced by the  
20 amount of the deduction for retirement or pension benefits claimed  
21 under subparagraph (i) or subdivision (e) and by the amount of a  
22 deduction claimed under subdivision (p). For the 2008 tax year and  
23 each tax year after 2008, the maximum amounts allowed under this  
24 subparagraph shall be adjusted by the percentage increase in the  
25 United States Consumer Price Index for the immediately preceding  
26 calendar year. The department shall annualize the amounts provided  
27 in this subparagraph as necessary.

28           (v) The amount determined to be the section 22 amount eligible  
29 for the elderly and the permanently and totally disabled credit

1 provided in section 22 of the internal revenue code.

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

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

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

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

9 (i) The amount of a charitable contribution made to the advance  
10 tuition payment fund created under section 9 of the Michigan  
11 education trust act, 1986 PA 316, MCL 390.1429.

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

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

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

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

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

28 (D) The contract is entered into after either of the  
29 following:

1 (I) The purchaser has had the purchaser's offer to enter into  
2 an advance tuition payment contract rejected by the board of  
3 directors of the Michigan education trust, if the board determines  
4 that the trust cannot accept an unlimited number of enrollees upon  
5 an actuarially sound basis.

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

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

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

27 (m) Add, to the extent deducted in determining adjusted gross  
28 income, the net operating loss deduction under section 172 of the  
29 internal revenue code.

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

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

(p) Beginning on and after January 1, 2007, subject to any limitation provided in this subdivision, a taxpayer who is a senior citizen may deduct to the extent included in adjusted gross income, interest, dividends, and capital gains received in the tax year not to exceed \$9,420.00 for a single return and \$18,840.00 for a joint return. The maximum amounts allowed under this subdivision shall be reduced by the amount of a deduction claimed for retirement or pension benefits under subdivision (e) or a deduction claimed under subdivision (f) (i), (ii), (iv), or (v). For the 2008 tax year and each tax year after 2008, the maximum amounts allowed under this subdivision shall be adjusted by the percentage increase in the United States Consumer Price Index for the immediately preceding calendar year. The department shall annualize the amounts provided in this subdivision as necessary. ~~Beginning January 1, 2012, the~~  
**The** deduction under this subdivision is not available to a senior citizen born after 1945.

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

(i) The amount of a refund received in the tax year based on taxes paid under this part and any direct or indirect allocated

1 share of a refund received by a flow-through entity under part 4.

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

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

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

16 (s) Deduct, to the extent included in adjusted gross income,  
17 any amount, and any interest earned on that amount, received in the  
18 tax year by a taxpayer who is a Holocaust victim as a result of a  
19 settlement of claims against any entity or individual for any  
20 recovered asset pursuant to the German act regulating unresolved  
21 property claims, also known as Gesetz zur Regelung offener  
22 Vermögensfragen, as a result of the settlement of the action  
23 entitled *In re: Holocaust victim assets litigation*, CV-96-4849, CV-  
24 96-5161, and CV-97-0461 (E.D. NY), or as a result of any similar  
25 action if the income and interest are not commingled in any way  
26 with and are kept separate from all other funds and assets of the  
27 taxpayer. As used in this subdivision:

28 (i) "Holocaust victim" means a person, or the heir or  
29 beneficiary of that person, who was persecuted by Nazi Germany or



1 any Axis regime during any period from 1933 to 1945.

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

8 (t) Deduct all of the following:

9 (i) To the extent not deducted in determining adjusted gross  
10 income, contributions made by the taxpayer in the tax year less  
11 qualified withdrawals made in the tax year from education savings  
12 accounts, calculated on a per education savings account basis,  
13 pursuant to the Michigan education savings program act, 2000 PA  
14 161, MCL 390.1471 to 390.1486, not to exceed a total deduction of  
15 \$5,000.00 for a single return or \$10,000.00 for a joint return per  
16 tax year. The amount calculated under this subparagraph for each  
17 education savings account shall not be less than zero.

18 (ii) To the extent included in adjusted gross income, interest  
19 earned in the tax year on the contributions to the taxpayer's  
20 education savings accounts if the contributions were deductible  
21 under subparagraph (i).

22 (iii) To the extent included in adjusted gross income,  
23 distributions that are qualified withdrawals from an education  
24 savings account to the designated beneficiary of that education  
25 savings account.

26 (u) Add, to the extent not included in adjusted gross income,  
27 the amount of money withdrawn by the taxpayer in the tax year from  
28 education savings accounts, not to exceed the total amount deducted  
29 under subdivision (t) in the tax year and all previous tax years,

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

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

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

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

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

22 (B) All interest and passive dividends.

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

25 (D) All rents and royalties derived from tangible personal  
26 property, to the extent the personal property is utilized within  
27 the agreement area.

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

1 (F) Capital gains from the sale or exchange of tangible  
2 personal property located within the agreement area at the time of  
3 sale.

4 (G) Capital gains from the sale or exchange of intangible  
5 personal property.

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

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

12 (J) All gaming winnings.

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

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

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

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

22 (w) Eliminate all of the following:

23 (i) Income from producing oil and gas to the extent included in  
24 adjusted gross income.

25 (ii) Expenses of producing oil and gas to the extent deducted  
26 in arriving at adjusted gross income.

27 (x) Deduct all of the following:

28 (i) To the extent not deducted in determining adjusted gross  
29 income, contributions made by the taxpayer in the tax year less

1 qualified withdrawals made in the tax year from an ABLE savings  
 2 account, pursuant to the Michigan achieving a better life  
 3 experience (ABLE) program act, 2015 PA 160, MCL 206.981 to 206.997,  
 4 not to exceed a total deduction of \$5,000.00 for a single return or  
 5 \$10,000.00 for a joint return per tax year. The amount calculated  
 6 under this subparagraph for an ABLE savings account shall not be  
 7 less than zero.

8 (ii) To the extent included in adjusted gross income, interest  
 9 earned in the tax year on the contributions to the taxpayer's ABLE  
 10 savings account if the contributions were deductible under  
 11 subparagraph (i).

12 (iii) To the extent included in adjusted gross income,  
 13 distributions that are qualified withdrawals from an ABLE savings  
 14 account to the designated beneficiary of that ABLE savings account.

15 (y) Add, to the extent not included in adjusted gross income,  
 16 the amount of money withdrawn by the taxpayer in the tax year from  
 17 an ABLE savings account, not to exceed the total amount deducted  
 18 under subdivision (x) in the tax year and all previous tax years,  
 19 if the withdrawal was not a qualified withdrawal as provided in the  
 20 Michigan achieving a better life experience (ABLE) program act,  
 21 2015 PA 160, MCL 206.981 to 206.997. This subdivision does not  
 22 apply to withdrawals that are less than the sum of all  
 23 contributions made to an ABLE savings account in all previous tax  
 24 years for which no deduction was claimed under subdivision (x),  
 25 less any contributions for which no deduction was claimed under  
 26 subdivision (x) that were withdrawn in all previous tax years.

27 (z) ~~For tax years that begin after December 31, 2018, deduct,~~  
 28 **Deduct**, to the extent included in adjusted gross income,  
 29 compensation received in the tax year pursuant to the wrongful

1 imprisonment compensation act, 2016 PA 343, MCL 691.1751 to  
2 691.1757.

3       ~~(aa) For the 2016, 2017, 2018, and 2019 tax years and for each~~  
4 ~~tax year that begins~~ **tax years that begin** on and after January 1,  
5 2025, a taxpayer who is a disabled veteran may deduct, to the  
6 extent included in adjusted gross income, income reported on a  
7 federal income tax form 1099-C that is attributable to the  
8 cancellation or discharge of a student loan by the United States  
9 Department of Education pursuant to the total and permanent  
10 disability discharge program, 34 CFR 685.213. As used in this  
11 subdivision, "disabled veteran" means an individual who meets  
12 either of the following criteria:

13       (i) Has been determined by the United States Department of  
14 Veterans Affairs to be permanently and totally disabled as a result  
15 of military service and entitled to veterans' benefits at the 100%  
16 rate.

17       (ii) Has been rated by the United States Department of Veterans  
18 Affairs as individually unemployable.

19       (bb) For tax years that begin on and after January 1, 2021,  
20 and subject to the limitation under this subdivision, deduct, to  
21 the extent not deducted in determining adjusted gross income,  
22 wagering losses deducted under section 165(d) of the internal  
23 revenue code on the taxpayer's federal income tax return for the  
24 same tax year. For a nonresident, only wagering losses that are  
25 attributable to wagering transactions placed at or through a casino  
26 or licensed race meeting located in this state may be deducted and  
27 must not exceed the gains on wagering transactions allocated to  
28 this state under section 110(2)(d). As used in this subdivision,  
29 "casino" and "licensed race meeting" mean those terms as defined in

1 section 110.

2 (cc) Except as otherwise provided under subparagraph (i), for  
3 tax years that begin on and after January 1, 2022, deduct all of  
4 the following:

5 (i) To the extent not deducted in determining adjusted gross  
6 income, contributions made by the taxpayer in the tax year less  
7 qualified withdrawals made in the tax year from a first-time home  
8 buyer savings account, pursuant to the Michigan first-time home  
9 buyer savings program act, 2022 PA 6, MCL 565.1001 to 565.1013, not  
10 to exceed a total deduction of \$5,000.00 for a single return or  
11 \$10,000.00 for a joint return per tax year. The amount calculated  
12 under this subparagraph for a first-time home buyer savings account  
13 shall not be less than zero. The deduction under this subparagraph  
14 does not apply for tax years that begin after December 31, 2026.

15 (ii) To the extent not deducted in determining adjusted gross  
16 income, interest earned in the tax year on the contributions to the  
17 taxpayer's first-time home buyer savings account.

18 (iii) To the extent included in adjusted gross income,  
19 distributions that are qualified withdrawals from a first-time home  
20 buyer savings account to the qualified beneficiary of that savings  
21 account.

22 (dd) For tax years that begin on and after January 1, 2022,  
23 add, to the extent not included in adjusted gross income, the  
24 amount of money withdrawn by the taxpayer in the tax year from a  
25 first-time home buyer savings account, not to exceed the total  
26 amount deducted under subdivision (cc) in the tax year and all  
27 previous tax years, if the withdrawal was not a qualified  
28 withdrawal as provided in the Michigan first-time home buyer  
29 savings program act, 2022 PA 6, MCL 565.1001 to 565.1013. This

subdivision does not apply to withdrawals that are less than the sum of all contributions made to a first-time home buyer savings account in all previous tax years for which no deduction was claimed under subdivision (cc), less any contributions for which no deduction was claimed under subdivision (cc) that were withdrawn in all previous tax years.

**(ee) For tax years beginning after December 31, 2024 and before January 1, 2029, deduct an amount equal to the sum of the following deductions allowed on the taxpayer's federal income tax return for the same tax year:**

**(i) Qualified tips under section 224 of the internal revenue code.**

**(ii) Qualified overtime compensation under section 225 of the internal revenue code.**

**(iii) Qualified passenger vehicle loan interest allowed under section 163 of the internal revenue code that is attributable to the exception under section 163(h)(4) of the internal revenue code.**

(2) Except as otherwise provided in subsection (7), and section 30a, a personal exemption of \$3,700.00 multiplied by the number of personal and dependency exemptions shall be subtracted in the calculation that determines taxable income. The number of personal and dependency exemptions allowed shall be determined as follows:

(a) Each taxpayer may claim 1 personal exemption. However, if a joint return is not made by the taxpayer and the taxpayer's spouse, the taxpayer may claim a personal exemption for the spouse if the spouse, for the calendar year in which the taxable year of the taxpayer begins, does not have any gross income and is not the dependent of another taxpayer.

1 (b) A taxpayer may claim a dependency exemption for each  
2 individual who is a dependent of the taxpayer for the tax year.

3 (c) ~~For tax years beginning on and after January 1, 2019, a~~ **A**  
4 taxpayer may claim an additional exemption under this subsection in  
5 the tax year for which the taxpayer has a certificate of stillbirth  
6 from the department of health and human services as provided under  
7 section 2834 of the public health code, 1978 PA 368, MCL 333.2834.

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

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

21 (b) 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 part, 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  
28 service-connected disability.

29 (ii) "Service-connected disability" means a disability incurred



1 or aggravated in the line of duty in the active military, naval, or  
2 air service as described in 38 USC 101(16).

3 (iii) "Veteran" means an individual who served in the active  
4 military, naval, marine, coast guard, or air service and who was  
5 discharged or released from the individual's service with an  
6 honorable or general discharge.

7 (4) An individual with respect to whom a deduction under  
8 subsection (2) is allowable to another taxpayer during the tax year  
9 is not entitled to an exemption for purposes of subsection (2), but  
10 may 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 beginning on and after January 1, 2013,  
22 the personal exemption allowed under subsection (2) shall be  
23 adjusted by multiplying the exemption for the tax year beginning in  
24 2012 by a fraction, the numerator of which is the United States  
25 Consumer Price Index for the state fiscal year ending in the tax  
26 year prior to the tax year for which the adjustment is being made  
27 and the denominator of which is the United States Consumer Price  
28 Index for the 2010-2011 state fiscal year. For the 2022 tax year  
29 and each tax year after 2022, the adjusted amount determined under

1 this subsection shall be increased by an additional \$600.00. The  
2 resultant product shall be rounded to the nearest \$100.00  
3 increment. For each tax year, the exemptions allowed under  
4 subsection (3) shall be adjusted by multiplying the exemption  
5 amount under subsection (3) for the tax year by a fraction, the  
6 numerator of which is the United States Consumer Price Index for  
7 the state fiscal year ending the tax year prior to the tax year for  
8 which the adjustment is being made and the denominator of which is  
9 the United States Consumer Price Index for the 1998-1999 state  
10 fiscal year. The resultant product shall be rounded to the nearest  
11 \$100.00 increment.

12 (8) As used in this section, "retirement or pension benefits"  
13 means distributions from all of the following:

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

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

19 (ii) Individual retirement accounts that qualify under section  
20 408 of the internal revenue code if the distributions are not made  
21 until the participant has reached 59-1/2 years of age, except in  
22 the case of death, disability, or distributions described by  
23 section 72(t)(2)(A)(iv) of the internal revenue code.

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

28 (iv) Distributions from a 401(k) plan attributable to employee  
29 contributions mandated by the plan or attributable to employer

1 contributions.

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

4 (i) Plans of the United States, state governments other than  
5 this state, and political subdivisions, agencies, or  
6 instrumentalities of this state.

7 (ii) Plans maintained by a church or a convention or  
8 association of churches.

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

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

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

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

21 (A) Deferred compensation plans under section 457 of the  
22 internal revenue code.

23 (B) Distributions from plans under section 401(k) of the  
24 internal revenue code other than plans described in subdivision  
25 (a) (iv) .

26 (C) Distributions from plans under section 403(b) of the  
27 internal revenue code other than plans described in subdivision  
28 (a) (iii) .

29 (ii) Premature distributions paid on separation, withdrawal, or

1 discontinuance of a plan prior to the earliest date the recipient  
2 could have retired under the provisions of the plan.

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

5 (9) Except as otherwise provided in subsection (10) or (11),  
6 in determining taxable income under this section, the following  
7 limitations and restrictions apply:

8 (a) For a person born before 1946, this subsection provides no  
9 additional restrictions or limitations under subsection (1)(f).

10 (b) Except as otherwise provided in subdivision (c), for a  
11 person born in 1946 through 1952, the sum of the deductions under  
12 subsection (1)(f)(i), (ii), and (iv) is limited to \$20,000.00 for a  
13 single return and \$40,000.00 for a joint return. After that person  
14 reaches the age of 67, the deductions under subsection (1)(f)(i),  
15 (ii), and (iv) do not apply and that person is eligible for a  
16 deduction of \$20,000.00 for a single return and \$40,000.00 for a  
17 joint return, which deduction is available against all types of  
18 income and is not restricted to income from retirement or pension  
19 benefits. A person who takes the deduction under subsection (1)(e)  
20 is not eligible for the unrestricted deduction of \$20,000.00 for a  
21 single return and \$40,000.00 for a joint return under this  
22 subdivision.

23 (c) Beginning January 1, 2013 for a person born in 1946  
24 through 1952 and beginning January 1, 2018 for a person born after  
25 1945 who has retired as of January 1, 2013, if that person receives  
26 retirement or pension benefits from employment with a governmental  
27 agency that was not covered by the federal social security act,  
28 ~~chapter 531, 49 Stat 620, 42 USC 301 to 1397mm,~~ the sum of the  
29 deductions under subsection (1)(f)(i), (ii), and (iv) is limited to

1 \$35,000.00 for a single return and, except as otherwise provided  
 2 under this subdivision, \$55,000.00 for a joint return. If both  
 3 spouses filing a joint return receive retirement or pension  
 4 benefits from employment with a governmental agency that was not  
 5 covered by the federal social security act, ~~chapter 531, 49 Stat~~  
 6 ~~620, 42 USC 301 to 1397mm~~, the sum of the deductions under  
 7 subsection (1)(f)(i), (ii), and (iv) is limited to \$70,000.00 for a  
 8 joint return. After that person reaches the age of 67, the  
 9 deductions under subsection (1)(f)(i), (ii), and (iv) do not apply and  
 10 that person is eligible for a deduction of \$35,000.00 for a single  
 11 return and \$55,000.00 for a joint return, or \$70,000.00 for a joint  
 12 return if applicable, which deduction is available against all  
 13 types of income and is not restricted to income from retirement or  
 14 pension benefits. A person who takes the deduction under subsection  
 15 (1)(e) is not eligible for the unrestricted deduction of \$35,000.00  
 16 for a single return and \$55,000.00 for a joint return, or  
 17 \$70,000.00 for a joint return if applicable, under this  
 18 subdivision.

19 (d) Except as otherwise provided under subdivision (c) for a  
 20 person who was retired as of January 1, 2013, for a person born  
 21 after 1952 who has reached the age of 62 through 66 years of age  
 22 and who receives retirement or pension benefits from employment  
 23 with a governmental agency that was not covered by the federal  
 24 social security act, ~~chapter 531, 49 Stat 620, 42 USC 301 to~~  
 25 ~~1397mm~~, the sum of the deductions under subsection (1)(f)(i), (ii),  
 26 and (iv) is limited to \$15,000.00 for a single return and, except as  
 27 otherwise provided under this subdivision, \$15,000.00 for a joint  
 28 return. If both spouses filing a joint return receive retirement or  
 29 pension benefits from employment with a governmental agency that

was not covered by the federal social security act, ~~chapter 531, 49~~  
~~Stat 620, 42 USC 301 to 1397mm~~, the sum of the deductions under  
 subsection (1)(f)(i), (ii), and (iv) is limited to \$30,000.00 for a  
 joint return.

(e) Except as otherwise provided under subdivision (c) or (d),  
 for a person born after 1952, the deduction under subsection  
 (1)(f)(i), (ii), or (iv) does not apply. When that person reaches the  
 age of 67, that person is eligible for a deduction of \$20,000.00

for a single return and \$40,000.00 for a joint return, which  
 deduction is available against all types of income and is not  
 restricted to income from retirement or pension benefits. ~~If~~

**Through the 2024 tax year, if** a person takes the deduction of  
 \$20,000.00 for a single return and \$40,000.00 for a joint return,  
 that person shall not take the deduction under subsection (1)(f)(iii)  
 and shall not take the personal exemption under subsection (2).

~~That~~ **Through the 2024 tax year, that** person may elect not to take  
 the deduction of \$20,000.00 for a single return and \$40,000.00 for  
 a joint return and elect to take the deduction under subsection  
 (1)(f)(iii) and the personal exemption under subsection (2) if that  
 election would reduce that person's tax liability. **Beginning with**

**the 2025 tax year, if a person takes the deduction of \$20,000.00**  
**for a single return or \$40,000.00 for a joint return, that person**  
**shall not take the personal exemption under subsection (2).** A

person who takes the deduction under subsection (1)(e) is not  
 eligible for the unrestricted deduction of \$20,000.00 for a single  
 return and \$40,000.00 for a joint return under this subdivision.

(f) For a joint return, the limitations and restrictions in  
 this subsection shall be applied based on the date of birth of the  
 older spouse filing the joint return. If a deduction under

1 subsection (1)(f) was claimed on a joint return for a tax year in  
2 which a spouse died and the surviving spouse has not remarried  
3 since the death of that spouse, the surviving spouse is entitled to  
4 claim the deduction under subsection (1)(f) in subsequent tax years  
5 subject to the same restrictions and limitations, for a single  
6 return, that would have applied based on the date of birth of the  
7 older of the 2 spouses. For tax years beginning after December 31,  
8 2019, a surviving spouse born after 1945 who has reached the age of  
9 67 and has not remarried since the death of that spouse may elect  
10 to take the deduction that is available against all types of income  
11 subject to the same limitations and restrictions as provided under  
12 this subsection based on the surviving spouse's date of birth  
13 instead of taking the deduction allowed under subsection (1)(f),  
14 for a single return, based on the date of birth of the older  
15 spouse.

16 (10) In determining taxable income under this section, a  
17 taxpayer may elect to deduct retirement or pension benefits as  
18 provided under subsection (1)(f) with the following limitations and  
19 restrictions or elect to apply the limitations and restrictions in  
20 subsection (9), or subsection (11) if applicable:

21 (a) For the 2023 tax year, a taxpayer who was born after 1945  
22 and before 1959 may deduct an amount of retirement or pension  
23 benefits not to exceed 25% of the maximum amount of retirement or  
24 pension benefits that the taxpayer would be allowed to deduct for  
25 the tax year under subsection (1)(f)(iv) if the taxpayer's  
26 retirement or pension benefits were subject to the limitations of  
27 that subsection only.

28 (b) For the 2024 tax year, a taxpayer who was born after 1945  
29 and before 1963 may deduct an amount of retirement or pension

1 benefits not to exceed 50% of the maximum amount of retirement or  
2 pension benefits that the taxpayer would be allowed to deduct for  
3 the tax year under subsection (1)(f)(iv) if the taxpayer's  
4 retirement or pension benefits were subject to the limitations of  
5 that subsection only.

6 (c) For the 2025 tax year, a taxpayer who was born after 1945  
7 and before 1967 may deduct an amount of retirement or pension  
8 benefits not to exceed 75% of the maximum amount of retirement or  
9 pension benefits that the taxpayer would be allowed to deduct for  
10 the tax year under subsection (1)(f)(iv) if the taxpayer's  
11 retirement or pension benefits were subject to the limitations of  
12 that subsection only.

13 (d) For the 2026 tax year and each tax year after 2026, a  
14 taxpayer may deduct retirement or pension benefits as provided  
15 under subsection (1)(f), except that the amounts deductible under  
16 subsection (1)(f)(i) and (ii) combined are subject to the same  
17 maximum amounts allowed under subsection (1)(f)(iv) for a single  
18 return and a joint return for that same tax year.

19 (e) For a joint return, the limitations and restrictions in  
20 this subsection shall be applied based on the date of birth of the  
21 older spouse filing the joint return. If a deduction under  
22 subsection (1)(f) was claimed on a joint return for a tax year in  
23 which a spouse died and the surviving spouse has not remarried  
24 since the death of that spouse, the surviving spouse is entitled to  
25 claim the deduction under subsection (1)(f) in subsequent tax years  
26 subject to the same restrictions and limitations under this  
27 subsection, for a single return, that would have applied based on  
28 the date of birth of the older of the 2 spouses.

29 (11) For tax years beginning on and after January 1, 2023, in



determining taxable income under this section, a taxpayer with retirement or pension benefits received for services as a public police or fire department employee subject to 1969 PA 312, MCL 423.231 to 423.247, a state police trooper or state police sergeant subject to 1980 PA 17, MCL 423.271 to 423.287, or a corrections officer employed by a county sheriff in a county jail, work camp, or other facility maintained by a county that houses adult prisoners may elect to deduct retirement or pension benefits as provided under subsection (1)(f) without any additional limitations or restrictions or elect to apply the limitations and restrictions in subsection (9) or (10).

(12) As used in this section:

(a) "Oil and gas" means oil and gas subject to severance tax under 1929 PA 48, MCL 205.301 to 205.317.

(b) "Senior citizen" means that term as defined in section 514.

(c) "United States Consumer Price Index" means the United States Consumer Price Index for all urban consumers as defined and reported by the United States Department of Labor, Bureau of Labor Statistics.

Sec. 607. (1) "Federal taxable income" means taxable income as defined in section 63 of the internal revenue code, except that federal taxable income shall be calculated as if section 168(k) ~~and section 199~~ of the internal revenue code ~~were~~**was** not in effect.

(2) "Flow-through entity" means an entity that for the applicable tax year is treated as a subchapter S corporation under section 1362(a) of the internal revenue code, a general partnership, a trust, a limited partnership, a limited liability partnership, or a limited liability company, that for the tax year

1 is not taxed as a corporation for federal income tax purposes.  
2 Flow-through entity does not include any entity disregarded or  
3 treated as a corporation under section 699.

4 (3) "Foreign operating entity" means a United States  
5 corporation that satisfies each of the following:

6 (a) Would otherwise be a part of a unitary business group that  
7 has at least 1 corporation included in the unitary business group  
8 that is taxable in this state.

9 (b) Has substantial operations outside the United States, the  
10 District of Columbia, any territory or possession of the United  
11 States except for the Commonwealth of Puerto Rico, or a political  
12 subdivision of any of the foregoing.

13 (c) At least 80% of its income is active foreign business  
14 income as defined in section 871(l)(1)(B)(ii) of the internal revenue  
15 code.

16 (4) "Gross receipts" means the entire amount received by the  
17 taxpayer from any activity whether in intrastate, interstate, or  
18 foreign commerce carried on for direct or indirect gain, benefit,  
19 or advantage to the taxpayer or to others except for the following:

20 (a) Proceeds from sales by a principal that the taxpayer  
21 collects in an agency capacity solely on behalf of the principal  
22 and delivers to the principal.

23 (b) Amounts received by the taxpayer as an agent solely on  
24 behalf of the principal that are expended by the taxpayer for any  
25 of the following:

26 (i) The performance of a service by a third party for the  
27 benefit of the principal that is required by law to be performed by  
28 a licensed person.

29 (ii) The performance of a service by a third party for the

1 benefit of the principal that the taxpayer has not undertaken a  
2 contractual duty to perform.

3 (iii) Principal and interest under a mortgage loan or land  
4 contract, lease or rental payments, or taxes, utilities, or  
5 insurance premiums relating to real or personal property owned or  
6 leased by the principal.

7 (iv) A capital asset of a type that is, or under the internal  
8 revenue code will become, eligible for depreciation, amortization,  
9 or accelerated cost recovery by the principal for federal income  
10 tax purposes, or for real property owned or leased by the  
11 principal.

12 (v) Property not described under subparagraph (iv) purchased by  
13 the taxpayer on behalf of the principal and that the taxpayer does  
14 not take title to or use in the course of performing its  
15 contractual business activities.

16 (vi) Fees, taxes, assessments, levies, fines, penalties, or  
17 other payments established by law that are paid to a governmental  
18 entity and that are the legal obligation of the principal.

19 (c) Amounts that are excluded from gross income of a foreign  
20 corporation engaged in the international operation of aircraft  
21 under section 883(a) of the internal revenue code.

22 (d) Amounts received by an advertising agency used to acquire  
23 advertising media time, space, production, or talent on behalf of  
24 another person.

25 (e) Notwithstanding any other provision of this section,  
26 amounts received by a taxpayer that manages real property owned by  
27 the taxpayer's client that are deposited into a separate account  
28 kept in the name of the taxpayer's client and that are not  
29 reimbursements to the taxpayer and are not indirect payments for

1 management services that the taxpayer provides to that client.

2 (f) Proceeds from the taxpayer's transfer of an account  
3 receivable if the sale that generated the account receivable was  
4 included in gross receipts for federal income tax purposes. This  
5 subdivision does not apply to a taxpayer that during the tax year  
6 both buys and sells any receivables.

7 (g) Proceeds from any of the following:

8 (i) The original issue of stock or equity instruments.

9 (ii) The original issue of debt instruments.

10 (h) Refunds from returned merchandise.

11 (i) Cash and in-kind discounts.

12 (j) Trade discounts.

13 (k) Federal, state, or local tax refunds.

14 (l) Security deposits.

15 (m) Payment of the principal portion of loans.

16 (n) Value of property received in a like-kind exchange.

17 (o) Proceeds from a sale, transaction, exchange, involuntary  
18 conversion, or other disposition of tangible, intangible, or real  
19 property that is a capital asset as defined in section 1221(a) of  
20 the internal revenue code or land that qualifies as property used  
21 in the trade or business as defined in section 1231(b) of the  
22 internal revenue code, less any gain from the disposition to the  
23 extent that gain is included in federal taxable income.

24 (p) The proceeds from a policy of insurance, a settlement of a  
25 claim, or a judgment in a civil action less any proceeds under this  
26 subdivision that are included in federal taxable income.

27 (5) "Insurance company" means an authorized insurer as defined  
28 in section 108 of the insurance code of 1956, 1956 PA 218, MCL  
29 500.108. Insurance company does not include a health maintenance

organization authorized under chapter 35 of the insurance code of 1956, 1956 PA 218, MCL 500.3501 to 500.3573.

(6) "Internal revenue code" means the United States internal revenue code of 1986 in effect on January 1, ~~2018~~**2025** or, at the option of the taxpayer, in effect for the tax year.

(7) "Member", when used in reference to a flow-through entity, means a shareholder of a subchapter S corporation, a partner in a general partnership, a limited partnership, or a limited liability partnership, a member of a limited liability company, or a beneficiary of a trust that is a flow-through entity.

Sec. 805. (1) "Federal taxable income" means taxable income as defined in section 63 of the internal revenue code without the deductions described under section 703(a)(2) of the internal revenue code. For the purposes of this part in computing federal taxable income, an S corporation shall be treated as a corporation under section 1361(a)(2) of the internal revenue code and a partnership shall be treated as an association taxable as a corporation pursuant to an election under 26 CFR 301.7701-3(a).

(2) "Financial institution" means that term as defined in section 651.

(3) "Flow-through entity" means an entity that for the applicable tax year is treated as an S corporation or a partnership under the internal revenue code for federal income tax purposes. Flow-through entity does not include a publicly traded partnership, any entity disregarded or treated as a corporation under section 845, or any person subject to the tax imposed under chapter 13.

(4) "Insurance company" means that term as defined in section 607.

(5) "Internal revenue code" means the United States internal

1 revenue code of 1986 in effect on January 1, ~~2021~~**2025** or, at the  
2 option of the taxpayer, in effect for the tax year.

3 (6) "Member", when used in reference to a flow-through entity,  
4 means a shareholder of an S corporation or a partner or member in a  
5 partnership.

6 Enacting section 1. This amendatory act is intended to be  
7 retroactive and applies retroactively effective for tax years  
8 beginning on and after January 1, 2025.