

**SUBSTITUTE FOR
HOUSE BILL NO. 4371**

A bill to amend 1967 PA 281, entitled
"Income tax act of 1967,"
by amending section 30 (MCL 206.30), as amended by 1996 PA 484.

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

1 (b) Add taxes on or measured by income to the extent the
2 taxes 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 pro-
5 hibited 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 obli-
9 gations, of the United States government that this state is pro-
10 hibited 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 premi-
14 ums, 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 serv-
17 ices 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
2 the political subdivisions of this state.

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

5 (iv) Before October 1, 1994, retirement or pension benefits
6 from any other retirement or pension system as follows:

7 (A) For a single return, the sum of not more than
8 \$7,500.00.

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

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

1 1994. As used in this subparagraph, "senior citizen" means that
2 term as defined in section 514.

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

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

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

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

12 (j) Deduct political contributions as described in section 4
13 of the Michigan campaign finance act, ~~Act No. 388 of the Public~~
14 ~~Acts of 1976, being section 169.204 of the Michigan Compiled~~
15 ~~Laws~~ 1976 PA 388, MCL 169.204, or section 301 of title III of
16 the federal election campaign act of 1971, Public Law 92-225, 2
17 U.S.C. 431, not in excess of \$50.00 per annum, or \$100.00 per
18 annum for a joint return.

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

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

24 (i) The amount of payment made under an advance tuition pay-
25 ment contract as provided in the Michigan education trust act,
26 ~~Act No. 316 of the Public Acts of 1986, being sections 390.1421~~

1 ~~to 390.1444 of the Michigan Compiled Laws~~ 1986 PA 316, MCL

2 390.1421 TO 390.1444.

3 (ii) The amount of payment made under a contract with a pri-
4 vate sector investment manager that meets all of the following
5 criteria:

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

10 (B) The contract applies only for a state institution of
11 higher education as defined in the Michigan education trust act,
12 ~~Act No. 316 of the Public Acts of 1986~~ 1986 PA 316, MCL
13 390.1421 TO 390.1444, or a community or junior college in
14 Michigan.

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

18 (D) The contract is entered into after either of the
19 following:

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

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

1 (m) If an advance tuition payment contract under the
2 Michigan education trust act, ~~Act No. 316 of the Public Acts of~~
3 ~~1986~~ 1986 PA 316, MCL 390.1421 TO 390.1444, or another contract
4 for which the payment was deductible under subdivision (1) is
5 terminated and the qualified beneficiary under that contract does
6 not attend a university, college, junior or community college, or
7 other institution of higher education, add the amount of a refund
8 received by the taxpayer as a result of that termination or the
9 amount of the deduction taken under subdivision (1) for payment
10 made under that contract, whichever is less.

11 (n) Deduct from the taxable income of a purchaser the amount
12 included as income to the purchaser under the internal revenue
13 code after the advance tuition payment contract entered into
14 under the Michigan education trust act, ~~Act No. 316 of the~~
15 ~~Public Acts of 1986~~ 1986 PA 316, MCL 390.1421 TO 390.1444, is
16 terminated because the qualified beneficiary attends an institu-
17 tion of postsecondary education other than either a state insti-
18 tution of higher education or an institution of postsecondary
19 education located outside this state with which a state institu-
20 tion of higher education has reciprocity.

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

24 (p) Deduct a net operating loss deduction for the taxable
25 year as ~~defined in~~ DETERMINED UNDER section 172 of the internal
26 revenue code subject to the modifications under section 172(b)(2)
27 of the internal revenue code and subject to the allocation and

1 apportionment provisions of chapter 3 of this act for the taxable
2 year in which the loss was incurred.

3 (q) For a tax year beginning after 1986, deduct, to the
4 extent included in adjusted gross income, benefits from a dis-
5 criminatory self-insurance medical expense reimbursement plan.

6 (r) After September 30, 1994 and before the 1997 tax year, a
7 taxpayer who is a senior citizen may deduct, to the extent
8 included in adjusted gross income, interest and dividends
9 received in the tax year not to exceed \$1,000.00 for a single
10 return or \$2,000.00 for a joint return. However, for tax years
11 before the 1997 tax year, the deduction under this subdivision
12 shall not be taken if the taxpayer takes a deduction for retire-
13 ment benefits under subdivision (e) or a deduction under
14 subdivision (f)(i), (ii), (iv), or (v). For tax years after the
15 1996 tax year, a taxpayer who is a senior citizen may deduct to
16 the extent included in adjusted gross income, interest, divi-
17 dends, and capital gains received in the tax year not to exceed
18 \$3,500.00 for a single return and \$7,000.00 for a joint return
19 for the 1997 tax year, and \$7,500.00 for a single return and
20 \$15,000.00 for a joint return for tax years after the 1997 tax
21 year. For tax years after the 1996 tax year, the maximum amounts
22 allowed under this subdivision shall be reduced by the amount of
23 a deduction claimed for retirement benefits under subdivision (e)
24 or a deduction claimed under subdivision (f)(i), (ii), (iv), or
25 (v). For the 1995 tax year, for the 1996 tax year, and for each
26 tax year after the 1998 tax year, the maximum amounts allowed
27 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 annu-
3 alize the amounts provided in this subdivision as necessary for
4 tax years that end after September 30, 1994. As used in this
5 subdivision, "senior citizen" means that term as defined in sec-
6 tion 514.

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

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

11 (ii) The amount of a refund received in the tax year based
12 on taxes paid under the city income tax act, ~~Act No. 284 of the~~
13 ~~Public Acts of 1964, being sections 141.501 to 141.787 of the~~
14 ~~Michigan Compiled Laws~~ 1964 PA 284, MCL 141.501 TO 141.787.

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

19 (t) Add the amount paid by the state on behalf of the tax-
20 payer in the tax year to repay the outstanding principal on a
21 loan taken on which the taxpayer defaulted that was to fund an
22 advance tuition payment contract entered into under the Michigan
23 education trust act, ~~Act No. 316 of the Public Acts of 1986~~
24 1986 PA 316, MCL 390.1421 TO 390.1444, if the cost of the advance
25 tuition payment contract was deducted under subdivision (l) and
26 was financed with a Michigan education trust secured loan.

Sub. H.B. 4371 (H-1) as amended July 10, 1997 9

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

6 (a) For a tax year beginning during 1987..... \$1,600.00.

7 (b) For a tax year beginning during 1988..... \$1,800.00.

8 (c) For a tax year beginning during 1989..... \$2,000.00.

9 (d) For a tax year beginning after 1989 and before

10 1995..... \$2,100.00.

11 (e) For a tax year beginning during 1995 or 1996 \$2,400.00.

12 []

13 [(f)] Except as otherwise pro-

14 vided in subsection (7), for a tax year

15 beginning after [1996 \$2,500.00.]

16 (3) A single additional exemption of \$1,400.00 for a tax
17 year beginning during 1987, \$1,200.00 for a tax year beginning
18 during 1988, \$1,000.00 for a tax year beginning during 1989, and
19 \$900.00 for a tax year beginning after 1989 shall be subtracted
20 in the calculation that determines taxable income in each of the
21 following circumstances:

22 (a) The taxpayer is a paraplegic, a quadriplegic, a hemiple-
23 gic, a person who is blind as defined in section 504, or a
24 totally and permanently disabled person as defined in section
25 522.

26 (b) The taxpayer is a deaf person as defined in section 2 of
27 the deaf persons' interpreters act, ~~Act No. 204 of the Public~~

Sub. H.B. 4371 (H-1) as amended July 10, 1997 10

~~1 Acts of 1982, being section 393.502 of the Michigan Compiled~~
~~2 Laws— 1982 PA 204, MCL 393.502.~~

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

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

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

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

18 (6) For a tax year beginning after 1987, in calculating tax-
19 able income, a taxpayer shall not subtract from adjusted gross
20 income the amount of prizes won by the taxpayer under the
21 McCauley-Traxler-Law-Bowman-McNeely lottery act, ~~Act No. 239 of~~
22 ~~the Public Acts of 1972, being sections 432.1 to 432.47 of the~~
23 ~~Michigan Compiled Laws— 1972 PA 239, MCL 432.1 TO 432.47.~~

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

Sub. H.B. 4371 (H-1) as amended July 10, 1997 11

1 consumer price index for the state fiscal year ending in the tax
2 year prior to the tax year for which the adjustment is being made
3 and the denominator of which is the United States consumer price
4 index for the 1995-96 state fiscal year. The resultant product
5 shall be rounded to the nearest \$100.00 increment [~~which shall be~~
6 ~~the personal exemption for the tax year. . THE PERSONAL EXEMPTION~~
FOR THE TAX YEAR SHALL BE DETERMINED BY ADDING \$200.00 TO THAT
AMOUNT.] As used in this sec-

7 tion, "United States consumer price index" means the United
8 States consumer price index for all urban consumers as defined
9 and reported by the United States department of labor, bureau of
10 labor statistics.

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

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

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

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

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

1 (iv) Distributions from a 401k plan attributable to employee
2 contributions mandated by the plan or attributable to employer
3 contributions.

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

6 (i) Plans of the United States, state governments other than
7 this state, and political subdivisions, agencies, or instrumen-
8 talities of this state.

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

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

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

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

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

23 (A) Deferred compensation plans under section 457 of the
24 internal revenue code.

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

1 (C) Distributions from plans under section 403(b) of the
2 internal revenue code other than plans described in
3 subdivision (a)(iii).

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

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