

# HOUSE BILL No. 5166

October 14, 2003, Introduced by Reps. Hoogendyk, Acciavatti, Garfield, Milosch, Drolet, Voorhees, Kooiman, Vander Veen, Shaffer, Hummel, Brandenburg, Sheen, Amos, Robertson, DeRoche, Huizenga, Casperson, Stakoe, Bradstreet, Stahl, Nofs and Van Regenmorter and referred to the Committee on Tax Policy.

A bill to amend 1967 PA 281, entitled  
"Income tax act of 1967,"  
by amending sections 30 and 30d (MCL 206.30 and 206.30d), section  
30 as amended by 2002 PA 615 and section 30d as amended by 2000  
PA 42; and to repeal acts and parts of acts.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1       Sec. 30. (1) "Taxable income" means, for a person other  
2 than a corporation, estate, or trust, adjusted gross income as  
3 defined in the internal revenue code subject to the following  
4 adjustments 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  
8 less related expenses not deducted in computing adjusted gross  
9 income because of section 265(a)(1) of the internal revenue

1 code.

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

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

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

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

20 (f) Deduct the following to the extent included in adjusted  
21 gross income:

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

25 (ii) Retirement or pension benefits received from a public  
26 retirement system of or created by another state or any of its  
27 political subdivisions if the income tax laws of the other state

1 permit a similar deduction or exemption or a reciprocal deduction  
2 or exemption of a retirement or pension benefit received from a  
3 public retirement system of or created by this state or any of  
4 the political subdivisions of this state.

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

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

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

10 (B) For a joint return, the sum of not more than \$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  
23 percentage increase in the United States consumer price index for  
24 the immediately preceding calendar year. The department shall  
25 annualize the amounts provided in this subparagraph and  
26 subparagraph (iv) as necessary for tax years that end after  
27 September 30, 1994. As used in this subparagraph, "senior

1 citizen" means that term as defined in section 514.

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

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

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

9 (i) Adjustments resulting from the allocation and  
10 apportionment provisions of chapter 3.

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

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

19 (l) Deduct the following payments made by the taxpayer in the  
20 tax year:

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

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

27 (A) The contract is certified and approved by the board of

1 directors of the Michigan education trust to provide equivalent  
2 benefits and rights to purchasers and beneficiaries as an advance  
3 tuition payment contract as described in subparagraph (i).

4 (B) The contract applies only for a state institution of  
5 higher education as defined in the Michigan education trust act,  
6 1986 PA 316, MCL 390.1421 to 390.1444, or a community or junior  
7 college in Michigan.

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

11 (D) The contract is entered into after either of the  
12 following:

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

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

21 (m) If an advance tuition payment contract under the Michigan  
22 education trust act, 1986 PA 316, MCL 390.1421 to 390.1444, or  
23 another contract for which the payment was deductible under  
24 subdivision (l) is terminated and the qualified beneficiary under  
25 that contract does not attend a university, college, junior or  
26 community college, or other institution of higher education, add  
27 the amount of a refund received by the taxpayer as a result of

1 that termination or the amount of the deduction taken under  
2 subdivision (l) for payment made under that contract, whichever  
3 is less.

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

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

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

22 (q) For a tax year beginning after 1986, deduct, to the  
23 extent included in adjusted gross income, benefits from a  
24 discriminatory self-insurance medical expense reimbursement  
25 plan.

26 (r) After September 30, 1994 and before the 1997 tax year, a  
27 taxpayer who is a senior citizen may deduct, to the extent

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

27 (s) Deduct, to the extent included in adjusted gross income,

1 all of the following:

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

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

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

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

19 (u) For the 1998 tax year and each tax year after the 1998  
20 tax year, deduct the amount calculated under section 30d.

21 (v) For tax years that begin on and after January 1, 1994,  
22 deduct, to the extent included in adjusted gross income, any  
23 amount, and any interest earned on that amount, received in the  
24 tax year by a taxpayer who is a Holocaust victim as a result of a  
25 settlement of claims against any entity or individual for any  
26 recovered asset pursuant to the German act regulating unresolved  
27 property claims, also known as Gesetz zur Regelung offener



1 Vermogensfragen, as a result of the settlement of the action  
2 entitled In re: Holocaust victims assets, CV-96-4849, CV-96-6161,  
3 and CV-97-0461 (E.D. NY), or as a result of any similar action if  
4 the income and interest are not commingled in any way with and  
5 are kept separate from all other funds and assets of the  
6 taxpayer. As used in this subdivision:

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

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

17 (w) For tax years that begin after December 31, 1999, deduct,  
18 to the extent not deducted in determining adjusted gross income,  
19 both of the following:

20 (i) The total of all contributions made on and after October  
21 1, 2000 by the taxpayer in the tax year to education savings  
22 accounts pursuant to the Michigan education savings program act,  
23 2000 PA 161, MCL 390.1471 to 390.1486, not to exceed \$5,000.00  
24 for a single return or \$10,000.00 for a joint return per tax  
25 year. A deduction under this subparagraph is not allowed for  
26 contributions to an education savings account in the tax year in  
27 which the initial withdrawal is made from that account or any

1 subsequent year.

2 (ii) The amount under section 30f.

3 (x) For tax years that begin after December 31, 1999, add to  
4 the extent not included in adjusted gross income the amount of  
5 money withdrawn by the taxpayer in the tax year from education  
6 savings accounts if the withdrawal was not a qualified withdrawal  
7 as provided in the Michigan education savings program act, 2000  
8 PA 161, MCL 390.1471 to 390.1486.

9 (y) For tax years that begin after December 31, 1999, deduct,  
10 to the extent included in adjusted gross income, the amount of a  
11 distribution from individual retirement accounts that qualify  
12 under section 408 of the internal revenue code if the  
13 distribution is used to pay qualified higher education expenses  
14 as that term is defined in the Michigan education savings program  
15 act, 2000 PA 161, MCL 390.1471 to 390.1486.

16 (z) For tax years that begin after December 31, 2000, deduct,  
17 to the extent included in adjusted gross income, an amount equal  
18 to the qualified charitable distribution made in the tax year by  
19 a taxpayer to a charitable organization. The amount allowed  
20 under this subdivision shall be equal to the amount deductible by  
21 the taxpayer under section 170(c) of the internal revenue code  
22 with respect to the qualified charitable distribution in the tax  
23 year in which the taxpayer makes the distribution to the  
24 qualified charitable organization, reduced by both the amount of  
25 the deduction for retirement or pension benefits claimed by the  
26 taxpayer under subdivision (f)(i), (ii), (iv), or (v) and by 2  
27 times the total amount of credits claimed under sections 260 and

1 261 for the tax year. As used in this subdivision, "qualified  
2 charitable distribution" means a distribution of assets to a  
3 qualified charitable organization by a taxpayer not more than 60  
4 days after the date on which the taxpayer received the assets as  
5 a distribution from a retirement or pension plan described in  
6 subsection (8)(a). A distribution is to a qualified charitable  
7 organization if the distribution is made in any of the following  
8 circumstances:

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

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

22 (A) The taxpayer who received the distribution from the  
23 retirement or pension plan.

24 (B) The spouse of an individual described in sub-subparagraph  
25 (A).

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

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

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

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

13       (A) All income derived from wages whether the wages are  
14 earned within the agreement area or outside of the agreement  
15 area.

16       (B) All interest and passive dividends.

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

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

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

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

27       (G) Capital gains from the sale or exchange of intangible

1 personal property.

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

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

9 (J) All gaming winnings.

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

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

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

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

19 (2) The following personal exemptions multiplied by the  
20 number of personal or dependency exemptions allowable on the  
21 taxpayer's federal income tax return pursuant to the internal  
22 revenue code shall be subtracted in the calculation that  
23 determines taxable income:

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

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

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

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

1 1995..... \$ 2,100.00.

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

3 (f) Except as otherwise provided in subsection (7),

4 for a tax year beginning after 1996..... \$ 2,500.00.

5 (3) A single additional exemption determined as follows shall  
6 be subtracted in the calculation that determines taxable income  
7 in each of the following circumstances:

8 (a) For tax years beginning after 1989 and before 2000,  
9 \$900.00 in each of the following circumstances:

10 (i) The taxpayer is a paraplegic, a quadriplegic, a  
11 hemiplegic, a person who is blind as defined in section 504, or a  
12 person who is totally and permanently disabled as defined in  
13 section 522.

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

16 (iii) The taxpayer is 65 years of age or older.

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

19 (b) For tax years beginning after 1999, **the following apply:**

20 (i) **For tax years that begin after December 31, 1999 and**  
21 **before January 1, 2003,** \$1,800.00 for each taxpayer and every  
22 dependent of the taxpayer who is 65 years of age or older. When  
23 a dependent of a taxpayer files an annual return under this act,  
24 the taxpayer or dependent of the taxpayer, but not both, may  
25 claim the additional exemption allowed under this subdivision.  
26 As used in this subdivision and subdivision (c), "dependent"  
27 means ~~that term as defined in section 30e~~ **an individual for**

1 whom the taxpayer may claim a dependency exemption on the  
2 taxpayer's federal income tax return pursuant to the internal  
3 revenue code.

4 (ii) For tax years beginning after December 31, 2002,  
5 \$3,600.00 for each taxpayer and every dependent of the taxpayer  
6 who is 65 years of age or older. When a dependent of a taxpayer  
7 files an annual return under this act, the taxpayer or dependent  
8 of the taxpayer, but not both, may claim the additional exemption  
9 allowed under this subdivision.

10 (c) For tax years beginning after 1999, the following apply:

11 (i) For tax years that begin after December 31, 1999 and  
12 before January 1, 2003, \$1,800.00 for each taxpayer and every  
13 dependent of the taxpayer who is a deaf person as defined in  
14 section 2 of the deaf persons' interpreters act, 1982 PA 204,  
15 MCL 393.502; a paraplegic, a quadriplegic, or a hemiplegic; a  
16 person who is blind as defined in section 504; or a person who is  
17 totally and permanently disabled as defined in section 522. When  
18 a dependent of a taxpayer files an annual return under this act,  
19 the taxpayer or dependent of the taxpayer, but not both, may  
20 claim the additional exemption allowed under this subdivision.

21 (ii) For tax years beginning after December 31, 2002,  
22 \$3,600.00 for each taxpayer and every dependent of the taxpayer  
23 who is a deaf person as defined in section 2 of the deaf persons'  
24 interpreters act, 1982 PA 204, MCL 393.502; a paraplegic, a  
25 quadriplegic, or a hemiplegic; a person who is blind as defined  
26 in section 504; or a person who is totally and permanently  
27 disabled as defined in section 522. When a dependent of a

1 taxpayer files an annual return under this act, the taxpayer or  
2 dependent of the taxpayer, but not both, may claim the additional  
3 exemption allowed under this subdivision.

4 (d) For tax years beginning after 1999, \$1,800.00 if the  
5 taxpayer's return includes unemployment compensation that amounts  
6 to 50% or more of adjusted gross income.

7 (4) For a tax year beginning after 1987, an individual with  
8 respect to whom a deduction under section 151 of the internal  
9 revenue code is allowable to another federal taxpayer during the  
10 tax year is not considered to have an allowable federal exemption  
11 for purposes of subsection (2), but may subtract \$500.00 in the  
12 calculation that determines taxable income for a tax year  
13 beginning in 1988, \$1,000.00 for a tax year beginning after 1988  
14 and before 2000, and \$1,500.00 for a tax year beginning after  
15 1999.

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

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

26 (7) For each tax year after the 1997 tax year, the personal  
27 exemption allowed under subsection (2) shall be adjusted by



1 multiplying the exemption for the tax year beginning in 1997 by a  
2 fraction, the numerator of which is the United States consumer  
3 price index for the state fiscal year ending in the tax year  
4 prior to the tax year for which the adjustment is being made and  
5 the denominator of which is the United States consumer price  
6 index for the 1995-96 state fiscal year. The resultant product  
7 shall be rounded to the nearest \$100.00 increment. The personal  
8 exemption for the tax year shall be determined by adding \$200.00  
9 to that rounded amount. As used in this section, "United States  
10 consumer price index" means the United States consumer price  
11 index for all urban consumers as defined and reported by the  
12 United States department of labor, bureau of labor statistics.  
13 For each year after the 2000 tax year, the exemptions allowed  
14 under subsection (3) shall be adjusted by multiplying the  
15 exemption amount under subsection (3) for the tax year beginning  
16 in 2000 by a fraction, the numerator of which is the United  
17 States consumer price index for the state fiscal year ending the  
18 tax year prior to the tax year for which the adjustment is being  
19 made and the denominator of which is the United States consumer  
20 price index for the 1998-1999 state fiscal year. The resultant  
21 product shall be rounded to the nearest \$100.00 increment.

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

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

27 (i) Plans for self-employed persons, commonly known as Keogh

1 or HR 10 plans.

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

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

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

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

17 (i) Plans of the United States, state governments other than  
18 this state, and political subdivisions, agencies, or  
19 instrumentalities of this state.

20 (ii) Plans maintained by a church or a convention or  
21 association of churches.

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

25 (c) Retirement or pension benefits received by a surviving  
26 spouse if those benefits qualified for a deduction prior to the  
27 decedent's death. Benefits received by a surviving child are not

1 deductible.

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

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

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

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

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

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

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

20 Sec. 30d. (1) The amendatory act that added this section  
21 shall be known as the "child care act of 1997".

22 (2) For the 1998 tax year and for tax years that begin in  
23 1999, taxable income for purposes of this act equals taxable  
24 income as determined under section 30 from which a taxpayer may  
25 deduct the following amounts:

26 (a) An amount equal to \$600.00 multiplied by the number of  
27 exemptions claimed by the taxpayer under section 30(2) in the tax

1 year for dependents of the taxpayer who are children younger than  
2 7 years of age on the last day of the tax year.

3 (b) An amount equal to \$300.00 multiplied by the number of  
4 exemptions claimed by the taxpayer under section 30(2) in the tax  
5 year for dependents of the taxpayer who are children and who are  
6 at least 7 years of age and younger than 13 years of age on the  
7 last day of the tax year.

8 (3) For tax years that begin after 1999, **the following**  
9 **apply:**

10 (i) **For tax years that begin after December 31, 1999 and**  
11 **before January 1, 2003,** taxable income for purposes of this act  
12 equals taxable income as determined under section 30 from which a  
13 taxpayer may deduct an amount equal to \$600.00 multiplied by the  
14 number of exemptions claimed by the taxpayer under section 30(2)  
15 in the tax year for dependents of the taxpayer who are children  
16 younger than 19 years of age on the last day of the tax year.

17 (ii) **For tax years that begin after December 31, 2002,**  
18 **taxable income for purposes of this act equals taxable income as**  
19 **determined under section 30 from which a taxpayer may deduct an**  
20 **amount equal to \$1,200.00 multiplied by the number of exemptions**  
21 **claimed by the taxpayer under section 30(2) in the tax year for**  
22 **dependents of the taxpayer who are children younger than 19 years**  
23 **of age on the last day of the tax year.**

24 Enacting section 1. Section 30e of the income tax act of  
25 1967, 1967 PA 281, MCL 206.30e, is repealed effective January 1,  
26 2003.