

**SUBSTITUTE FOR
HOUSE BILL NO. 5682**

A bill to amend 1967 PA 281, entitled
"Income tax act of 1967,"
by amending sections 30, 623, and 815 (MCL 206.30, 206.623, and
206.815), section 30 as amended by 2023 PA 4 and section 623 as
amended and section 815 as added by 2021 PA 135.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

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

5 (a) Add gross interest income and dividends derived from
6 obligations or securities of states other than Michigan, in the
7 same amount that has been excluded from adjusted gross income less

1 related expenses not deducted in computing adjusted gross income
2 because of section 265(a)(1) of the internal revenue code.

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

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

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

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

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

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

25 (iii) Beginning January 1, 2012, retirement or pension benefits
26 received for services in the Michigan National 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 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

any Axis regime during any period from 1933 to 1945.

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

(t) Deduct all of the following:

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

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

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

(u) Add, to the extent not included in adjusted gross income, the amount of money withdrawn by the taxpayer in the tax year from education savings accounts, not to exceed the total amount deducted 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 to the extent included in adjusted gross income, compensation
29 received in the tax year pursuant to the wrongful imprisonment

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

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

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

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

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

29 (cc) Except as otherwise provided under subparagraph (i), for

1 tax years that begin on and after January 1, 2022, deduct all of
2 the following:

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

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

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

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

1 account in all previous tax years for which no deduction was
2 claimed under subdivision (cc), less any contributions for which no
3 deduction was claimed under subdivision (cc) that were withdrawn in
4 all previous tax years.

5 (ee) For tax years beginning on and after January 1, 2023,
6 deduct, to the extent included in adjusted gross income, grant
7 money received from an eligible grant issued by this state, a
8 political subdivision of this state, any other state, or the
9 federal government under a state, local, or federal program for the
10 purpose of providing, improving, or expanding broadband expansion
11 in this state. As used in this subdivision, "eligible grant" means
12 a grant issued under any of the following:

13 (i) The broadband expansion act of Michigan, 2020 PA 224, MCL
14 484.3251 to 484.3261.

15 (ii) The broadband equity, access, and deployment program
16 established under 47 USC 1702.

17 (iii) The middle mile grant program established under 47 USC
18 1741.

19 (iv) The connect America fund, alternative connect America cost
20 model, and enhanced alternative connect America cost model programs
21 administered by the Federal Communications Commission under the
22 Federal Communications Commission connect America fund order 14-
23 190, 80 FR 445, 353, including various phases and revisions.

24 (v) The rural digital opportunity fund established and
25 administered by the Federal Communications Commission under 47 CFR
26 54.801 to 54.806.

27 (vi) The reconnect program, also known as the rural
28 econnectivity program, established under 7 CFR 1740.1 to 1740.100.

29 (vii) The tribal broadband connectivity program administered by

1 the National Telecommunications and Information Administration.

2 (viii) The broadband infrastructure program administered by the
3 National Telecommunications and Information Administration.

4 (ix) The coronavirus capital projects fund established under 42
5 USC 804.

6 (x) The state digital equity capacity grant program
7 established under 47 USC 1723.

8 (xi) The digital equity competitive grants program established
9 under 47 USC 1724.

10 (xii) Rural broadband access loan and loan guarantee program
11 administered by the United States Department of Agriculture Rural
12 Utilities Service under 7 CFR 1738.1 to 17358.350.

13 (xiii) The connecting Michigan communities grant program
14 established under section 806 of 2018 PA 618 and section 841 of
15 article 5 of 2020 PA 166.

16 (ff) For tax years beginning on and after January 1, 2023,
17 add, to the extent deducted in determining adjusted gross income,
18 expenses, including depreciation, attributable to an eligible grant
19 as defined under subdivision (ee).

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

26 (a) Each taxpayer may claim 1 personal exemption. However, if
27 a joint return is not made by the taxpayer and the taxpayer's
28 spouse, the taxpayer may claim a personal exemption for the spouse
29 if the spouse, for the calendar year in which the taxable year of

1 the taxpayer begins, does not have any gross income and is not the
2 dependent of another taxpayer.

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

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

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

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

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

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

1 service-connected disability.

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

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

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

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

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

23 (7) For each tax year beginning on and after January 1, 2013,
24 the personal exemption allowed under subsection (2) shall be
25 adjusted by multiplying the exemption for the tax year beginning in
26 2012 by a fraction, the numerator of which is the United States
27 Consumer Price Index for the state fiscal year ending in the tax
28 year prior to the tax year for which the adjustment is being made
29 and the denominator of which is the United States Consumer Price

1 Index for the 2010-2011 state fiscal year. For the 2022 tax year
 2 and each tax year after 2022, the adjusted amount determined under
 3 this subsection shall be increased by an additional \$600.00. The
 4 resultant product shall be rounded to the nearest \$100.00
 5 increment. For each tax year, the exemptions allowed under
 6 subsection (3) shall be adjusted by multiplying the exemption
 7 amount under subsection (3) for the tax year by a fraction, the
 8 numerator of which is the United States Consumer Price Index for
 9 the state fiscal year ending the tax year prior to the tax year for
 10 which the adjustment is being made and the denominator of which is
 11 the United States Consumer Price Index for the 1998-1999 state
 12 fiscal year. The resultant product shall be rounded to the nearest
 13 \$100.00 increment.

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

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

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

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

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

1 (iv) Distributions from a 401(k) 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
8 instrumentalities of this state.

9 (ii) Plans maintained by a church or a convention or
10 association 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
21 prescribe 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 subdivision
27 (a) (iv) .

28 (C) Distributions from plans under section 403(b) of the
29 internal revenue code other than plans described in subdivision

1 (a) (iii) .

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

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

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

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

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

25 (c) Beginning January 1, 2013 for a person born in 1946
26 through 1952 and beginning January 1, 2018 for a person born after
27 1945 who has retired as of January 1, 2013, if that person receives
28 retirement or pension benefits from employment with a governmental
29 agency that was not covered by the federal social security act,

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

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

1 benefits from employment with a governmental agency that was not
2 covered by the federal social security act, chapter 531, 49 Stat
3 620, the sum of the deductions under subsection (1)(f)(i), (ii), and
4 (iv) is limited to \$30,000.00 for a joint return.

5 (e) Except as otherwise provided under subdivision (c) or (d),
6 for a person born after 1952, the deduction under subsection
7 (1)(f)(i), (ii), or (iv) does not apply. When that person reaches the
8 age of 67, that person is eligible for a deduction of \$20,000.00
9 for a single return and \$40,000.00 for a joint return, which
10 deduction is available against all types of income and is not
11 restricted to income from retirement or pension benefits. If a
12 person takes the deduction of \$20,000.00 for a single return and
13 \$40,000.00 for a joint return, that person shall not take the
14 deduction under subsection (1)(f)(iii) and shall not take the
15 personal exemption under subsection (2). That person may elect not
16 to take the deduction of \$20,000.00 for a single return and
17 \$40,000.00 for a joint return and elect to take the deduction under
18 subsection (1)(f)(iii) and the personal exemption under subsection
19 (2) if that election would reduce that person's tax liability. A
20 person who takes the deduction under subsection (1)(e) is not
21 eligible for the unrestricted deduction of \$20,000.00 for a single
22 return and \$40,000.00 for a joint return under this subdivision.

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

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

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

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

24 (b) For the 2024 tax year, a taxpayer who was born after 1945
25 and before 1963 may deduct an amount of retirement or pension
26 benefits not to exceed 50% of the maximum amount of retirement or
27 pension benefits that the taxpayer would be allowed to deduct for
28 the tax year under subsection (1)(f)(iv) if the taxpayer's
29 retirement or pension benefits were subject to the limitations of

1 that subsection only.

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

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

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

25 (11) For tax years beginning on and after January 1, 2023, in
26 determining taxable income under this section, a taxpayer with
27 retirement or pension benefits received for services as a public
28 police or fire department employee subject to 1969 PA 312, MCL
29 423.231 to 423.247, a state police trooper or state police sergeant

1 subject to 1980 PA 17, MCL 423.271 to 423.287, or a corrections
2 officer employed by a county sheriff in a county jail, work camp,
3 or other facility maintained by a county that houses adult
4 prisoners may elect to deduct retirement or pension benefits as
5 provided under subsection (1)(f) without any additional limitations
6 or restrictions or elect to apply the limitations and restrictions
7 in subsection (9) or (10).

8 (12) As used in this section:

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

11 (b) "Senior citizen" means that term as defined in section
12 514.

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

17 Sec. 623. (1) Except as otherwise provided in this part, there
18 is levied and imposed a corporate income tax on every taxpayer with
19 business activity within this state or ownership interest or
20 beneficial interest in a flow-through entity that has business
21 activity in this state unless prohibited by 15 USC 381 to 384. The
22 corporate income tax is imposed on the corporate income tax base,
23 after allocation or apportionment to this state, at the rate of
24 6.0%.

25 (2) The corporate income tax base means a taxpayer's business
26 income subject to the following adjustments, before allocation or
27 apportionment, and the adjustment in subsection (4) after
28 allocation or apportionment:

29 (a) Add interest income and dividends derived from obligations

1 or securities of states other than this state, in the same amount
2 that was excluded from federal taxable income, less the related
3 portion of expenses not deducted in computing federal taxable
4 income because of sections 265 and 291 of the internal revenue
5 code.

6 (b) Add all taxes on or measured by net income including the
7 tax imposed under this part to the extent that the taxes were
8 deducted in arriving at federal taxable income including any direct
9 or indirect allocated share of taxes paid by a flow-through entity
10 under part 4.

11 (c) Add any carryback or carryover of a net operating loss to
12 the extent deducted in arriving at federal taxable income.

13 (d) To the extent included in federal taxable income, deduct
14 dividends and royalties received from persons other than United
15 States persons and foreign operating entities, including, but not
16 limited to, amounts determined under section 78 of the internal
17 revenue code or sections 951 to 965 of the internal revenue code.

18 (e) Except as otherwise provided under this subdivision, to
19 the extent deducted in arriving at federal taxable income, add any
20 royalty, interest, or other expense paid to a person related to the
21 taxpayer by ownership or control for the use of an intangible asset
22 if the person is not included in the taxpayer's unitary business
23 group. The addition of any royalty, interest, or other expense
24 described under this subdivision is not required to be added if the
25 taxpayer can demonstrate that the transaction has a nontax business
26 purpose, is conducted with arm's-length pricing and rates and terms
27 as applied in accordance with sections 482 and 1274(d) of the
28 internal revenue code, and 1 of the following is true:

29 (i) The transaction is a pass through of another transaction

1 between a third party and the related person with comparable rates
2 and terms.

3 (ii) An addition would result in double taxation. For purposes
4 of this subparagraph, double taxation exists if the transaction is
5 subject to tax in another jurisdiction.

6 (iii) An addition would be unreasonable as determined by the
7 state treasurer.

8 (iv) The related person recipient of the transaction is
9 organized under the laws of a foreign nation which has in force a
10 comprehensive income tax treaty with the United States.

11 (f) To the extent included in federal taxable income, deduct
12 interest income derived from United States obligations.

13 (g) Eliminate all of the following:

14 (i) Income from producing oil and gas to the extent included in
15 federal taxable income.

16 (ii) Expenses of producing oil and gas to the extent deducted
17 in arriving at federal taxable income.

18 (h) For a qualified taxpayer, eliminate all of the following:

19 (i) Income derived from a mineral to the extent included in
20 federal taxable income.

21 (ii) Expenses related to the income deductible under
22 subparagraph (i) to the extent deducted in arriving at federal
23 taxable income.

24 (i) **For tax years beginning on and after January 1, 2023,**
25 **deduct, to the extent included in federal taxable income, grant**
26 **money received from an eligible grant issued by this state, a**
27 **political subdivision of this state, any other state, or the**
28 **federal government under a state, local, or federal program for the**
29 **purpose of providing, improving, or expanding broadband expansion**

1 in this state. As used in this subdivision, "eligible grant" means
2 a grant issued under any of the following:

3 (i) The broadband expansion act of Michigan, 2020 PA 224, MCL
4 484.3251 to 484.3261.

5 (ii) The broadband equity, access, and deployment program
6 established under 47 USC 1702.

7 (iii) The middle mile grant program established under 47 USC
8 1741.

9 (iv) The connect America fund, alternative connect America cost
10 model, and enhanced alternative connect America cost model programs
11 administered by the Federal Communications Commission under the
12 Federal Communications Commission connect America fund order 14-
13 190, 80 FR 445, 353, including various phases and revisions.

14 (v) The rural digital opportunity fund established and
15 administered by the Federal Communications Commission under 47 CFR
16 54.801 to 54.806.

17 (vi) The reconnect program, also known as the rural
18 econnectivity program, established under 7 CFR 1740.1 to 1740.100.

19 (vii) The tribal broadband connectivity program administered by
20 the National Telecommunications and Information Administration.

21 (viii) The broadband infrastructure program administered by the
22 National Telecommunications and Information Administration.

23 (ix) The coronavirus capital projects fund established under 42
24 USC 804.

25 (x) The state digital equity capacity grant program
26 established under 47 USC 1723.

27 (xi) The digital equity competitive grants program established
28 under 47 USC 1724.

(xii) Rural broadband access loan and loan guarantee program administered by the United States Department of Agriculture Rural Utilities Service under 7 CFR 1738.1 to 17358.350.

(xiii) The connecting Michigan communities grant program established under section 806 of 2018 PA 618 and section 841 of article 5 of 2020 PA 166.

(j) For tax years beginning on and after January 1, 2023, add, to the extent deducted in arriving at federal taxable income, expenses, including depreciation, attributable to an eligible grant as defined under subdivision (i).

(3) For purposes of subsection (2), the business income of a unitary business group is the sum of the business income of each person included in the unitary business group less any items of income and related deductions arising from transactions including dividends between persons included in the unitary business group.

(4) Deduct any available business loss incurred after December 31, 2011. As used in this subsection, "business loss" means a negative business income taxable amount after allocation or apportionment. For purposes of this subsection, a taxpayer that acquires the assets of another corporation in a transaction described under section 381(a)(1) or (2) of the internal revenue code may deduct any business loss attributable to that distributor or transferor corporation. The business loss shall be carried forward to the year immediately succeeding the loss year as an offset to the allocated or apportioned corporate income tax base, then successively to the next 9 taxable years following the loss year or until the loss is used up, whichever occurs first.

(5) As used in this section, "oil and gas" means oil and gas that is subject to severance tax under 1929 PA 48, MCL 205.301 to

1 205.317.

2 Sec. 815. (1) Subject to section 847, beginning January 1,
3 2021 and each tax year after 2021, there is levied and imposed a
4 flow-through entity tax on every taxpayer with business activity in
5 this state unless prohibited by 15 USC 381 to 384. Except as
6 otherwise provided under subsection (5), the flow-through entity
7 tax is imposed on the positive business income tax base, after
8 allocation or apportionment to this state, at the same rate levied
9 and imposed under section 51 for that same tax year. A negative
10 business income tax base of a flow-through entity, after allocation
11 or apportionment to this state, is includible in the business
12 income tax base of each member of the flow-through entity and is
13 not available as an offset to the allocated or apportioned business
14 income tax base of the flow-through entity in any other tax year
15 for which an election is made under section 813.

16 (2) The business income tax base means a taxpayer's business
17 income subject to the following adjustments, before allocation or
18 apportionment, and the adjustment in subsection (4) after
19 allocation or apportionment:

20 (a) Add interest income and dividends derived from obligations
21 or securities of states other than this state, in the same amount
22 that was excluded from federal taxable income, less the related
23 portion of expenses not deducted in computing federal taxable
24 income because of sections 265 and 291 of the internal revenue
25 code.

26 (b) Add losses on the sale or exchange of obligations of the
27 United States government, the income of which this state is
28 prohibited from subjecting to a net income tax, to the extent that
29 the loss has been deducted in arriving at federal taxable income.

1 (c) Deduct, to the extent included in federal taxable income,
2 income derived from obligations, or the sale or exchange of
3 obligations, of the United States government that this state is
4 prohibited by law from subjecting to a net income tax, reduced by
5 any interest on indebtedness incurred in carrying the obligations
6 and by any expenses incurred in the production of that income to
7 the extent that the expenses, including amortizable bond premiums,
8 were deducted in arriving at federal taxable income.

9 (d) Add charitable contributions to the extent deducted in
10 arriving at federal taxable income.

11 (e) Add all taxes on or measured by net income including the
12 tax imposed under this part to the extent that the taxes were
13 deducted in arriving at federal taxable income.

14 (f) Deduct guaranteed payments for services rendered by a
15 member who is an individual to the extent that those guaranteed
16 payments were included in federal taxable income.

17 (g) Deduct, to the extent included in federal taxable income,
18 all of the following:

19 (i) The amount of a refund received in the tax year based on
20 taxes paid under this part.

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

24 (h) Deduct business income received as a member of another
25 flow-through entity to the extent that the business income
26 increased federal taxable income.

27 (i) Eliminate all of the following:

28 (i) Income from producing oil and gas to the extent included in
29 federal taxable income.

1 (ii) Expenses of producing oil and gas to the extent deducted
2 in arriving at federal taxable income.

3 (iii) Income derived from a mineral to the extent included in
4 federal taxable income of a qualified taxpayer.

5 (iv) Expenses related to the income deductible under
6 subparagraph (iii) to the extent deducted in arriving at federal
7 taxable income.

8 (j) For tax years beginning on and after January 1, 2023,
9 deduct, to the extent included in federal taxable income, grant
10 money received from an eligible grant issued by this state, a
11 political subdivision of this state, any other state, or the
12 federal government under a state, local, or federal program for the
13 purpose of providing, improving, or expanding broadband expansion
14 in this state. As used in this subdivision, "eligible grant" means
15 a grant issued under any of the following:

16 (i) The broadband expansion act of Michigan, 2020 PA 224, MCL
17 484.3251 to 484.3261.

18 (ii) The broadband equity, access, and deployment program
19 established under 47 USC 1702.

20 (iii) The middle mile grant program established under 47 USC
21 1741.

22 (iv) The connect America fund, alternative connect America cost
23 model, and enhanced alternative connect America cost model programs
24 administered by the Federal Communications Commission under the
25 Federal Communications Commission connect America fund order 14-
26 190, 80 FR 445, 353, including various phases and revisions.

27 (v) The rural digital opportunity fund established and
28 administered by the Federal Communications Commission under 47 CFR
29 54.801 to 54.806.

(vi) The reconnect program, also known as the rural econnectivity program, established under 7 CFR 1740.1 to 1740.100.

(vii) The tribal broadband connectivity program administered by the National Telecommunications and Information Administration.

(viii) The broadband infrastructure program administered by the National Telecommunications and Information Administration.

(ix) The coronavirus capital projects fund established under 42 USC 804.

(x) The state digital equity capacity grant program established under 47 USC 1723.

(xi) The digital equity competitive grants program established under 47 USC 1724.

(xii) Rural broadband access loan and loan guarantee program administered by the United States Department of Agriculture Rural Utilities Service under 7 CFR 1738.1 to 17358.350.

(xiii) The connecting Michigan communities grant program established under section 806 of 2018 PA 618 and section 841 of article 5 of 2020 PA 166.

(k) For tax years beginning on and after January 1, 2023, add, to the extent deducted in arriving at federal taxable income, expenses, including depreciation, attributable to an eligible grant as defined under subdivision (j).

(3) For a taxpayer that has a direct, or indirect through 1 or more other flow-through entities, ownership or beneficial interest in a flow-through entity for which an election was made under section 813 and that reported positive business income in a tax year ending on or within the taxpayer's tax year, the adjustments in subsection (2) shall not include the taxpayer's share of the electing flow-through entities adjustments under subsection (2).

1 (4) For a taxpayer that has a direct, or indirect through 1 or
2 more other flow-through entities, ownership or beneficial interest
3 in a flow-through entity for which an election was not made under
4 section 813, add the taxpayer's share of the non-electing flow-
5 through entity's positive business income as determined under
6 section 817(2).

7 (5) In computing the tax due under this part, the taxpayer
8 shall pay the tax due only on the business income tax base
9 allocable to those members who are individuals, flow-through
10 entities, estates, or trusts and exclude the business income tax
11 base allocable to those members that are corporations, insurance
12 companies, or financial institutions. The department may require
13 the taxpayer to disclose identifying information for all members of
14 the taxpayer and the allocable share of business income for each
15 member.

16 (6) As used in this section:

17 (a) "Mineral" means that term as defined in section 2 of the
18 nonferrous metallic minerals extraction severance tax act, 2012 PA
19 410, MCL 211.782.

20 (b) "Oil and gas" means oil and gas that is subject to
21 severance tax under 1929 PA 48, MCL 205.301 to 205.317.

22 (c) "Qualified taxpayer" means a taxpayer subject to the
23 minerals severance tax levied under the nonferrous metallic
24 minerals extraction severance tax act, 2012 PA 410, MCL 211.781 to
25 211.791.

26 Enacting section 1. This amendatory act is intended to be
27 retroactive and applies retroactively effective for tax years
28 beginning on and after January 1, 2023.