

**SUBSTITUTE FOR  
HOUSE BILL NO. 4961**

A bill to amend 1967 PA 281, entitled  
"Income tax act of 1967,"  
by amending sections 12, 30, 36, 607, 695, and 805 (MCL 206.12,  
206.30, 206.36, 206.607, 206.695, and 206.805), sections 12, 607,  
and 805 as amended by 2024 PA 177, sections 30 and 695 as amended  
by 2023 PA 4, and section 36 as amended by 2011 PA 38; and to  
repeal acts and parts of acts.

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

1       Sec. 12. (1) "Flow-through entity" means an S corporation,  
2       partnership, limited partnership, limited liability partnership, or  
3       limited liability company. Flow-through entity does not include a  
4       publicly traded partnership as that term is defined in section 7704  
5       of the internal revenue code that has equity securities registered

1 with the securities and exchange commission under section 12 of  
 2 title I of the securities exchange act of 1934, 15 USC 78/, or a  
 3 person treated as a corporation under section 339.

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

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

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

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

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

15 (b) A nonresident estate or trust.

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

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

21 (a) Add gross interest income and dividends derived from  
 22 obligations or securities of states other than Michigan, in the  
 23 same amount that has been excluded from adjusted gross income less  
 24 related expenses not deducted in computing adjusted gross income  
 25 because of section 265(a)(1) of the internal revenue code.

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

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

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

13 (e) Deduct, to the extent included in adjusted gross income,  
14 the following:

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

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

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

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

25 (i) Retirement or pension benefits received from a federal  
26 public retirement system or from a public retirement system of or  
27 created by this state or a political subdivision of this state.

28 (ii) Retirement or pension benefits received from a public  
29 retirement system of or created by another state or any of its

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

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

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

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

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

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

29 (i) Adjustments resulting from the allocation and

1 apportionment provisions of chapter 3.

2 (j) Deduct the following payments made by the taxpayer in the  
3 tax year:

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

7 (ii) The amount of payment made under an advance tuition  
8 payment contract as provided in the Michigan education trust act,  
9 1986 PA 316, MCL 390.1421 to 390.1442.

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

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

16 (B) The contract applies only for a state institution of  
17 higher education as defined in the Michigan education trust act,  
18 1986 PA 316, MCL 390.1421 to 390.1442, or a community or junior  
19 college in Michigan.

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

23 (D) The contract is entered into after either of the  
24 following:

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

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

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

13           (l) Deduct from the taxable income of a purchaser the amount  
14 included as income to the purchaser under the internal revenue code  
15 after the advance tuition payment contract entered into under the  
16 Michigan education trust act, 1986 PA 316, MCL 390.1421 to  
17 390.1442, is terminated because the qualified beneficiary attends  
18 an institution of postsecondary education other than either a state  
19 institution of higher education or an institution of postsecondary  
20 education located outside this state with which a state institution  
21 of higher education has reciprocity.

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

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

1 the loss was incurred.

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

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

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

23 (i) The amount of a refund received in the tax year based on  
24 taxes paid under this part and any direct or indirect allocated  
25 share of a refund received by a flow-through entity under part 4.

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

29 (iii) The amount of a credit received in the tax year based on a

1 claim filed under sections 520 and 522 to the extent that the taxes  
2 used to calculate the credit were not used to reduce adjusted gross  
3 income for a prior year.

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

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

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

26 (ii) "Recovered asset" means any asset of any type and any  
27 interest earned on that asset, including, but not limited to, bank  
28 deposits, insurance proceeds, or artwork owned by a Holocaust  
29 victim during the period from 1920 to 1945, withheld from that

1 Holocaust victim from and after 1945, and not recovered, returned,  
2 or otherwise compensated to the Holocaust victim until after 1993.

3 (t) Deduct all of the following:

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

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

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

21 (u) Add, to the extent not included in adjusted gross income,  
22 the amount of money withdrawn by the taxpayer in the tax year from  
23 education savings accounts, not to exceed the total amount deducted  
24 under subdivision (t) in the tax year and all previous tax years,  
25 if the withdrawal was not a qualified withdrawal as provided in the  
26 Michigan education savings program act, 2000 PA 161, MCL 390.1471  
27 to 390.1486. This subdivision does not apply to withdrawals that  
28 are less than the sum of all contributions made to an education  
29 savings account in all previous tax years for which no deduction

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

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

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

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

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

17 (B) All interest and passive dividends.

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

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

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

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

28 (G) Capital gains from the sale or exchange of intangible  
29 personal property.

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

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

7 (J) All gaming winnings.

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

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

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

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

17 (w) Eliminate all of the following:

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

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

22 (x) Deduct all of the following:

23 (i) To the extent not deducted in determining adjusted gross  
24 income, contributions made by the taxpayer in the tax year less  
25 qualified withdrawals made in the tax year from an ABLE savings  
26 account, pursuant to the Michigan achieving a better life  
27 experience (ABLE) program act, 2015 PA 160, MCL 206.981 to 206.997,  
28 not to exceed a total deduction of \$5,000.00 for a single return or  
29 \$10,000.00 for a joint return per tax year. The amount calculated

1 under this subparagraph for an ABLE savings account shall not be  
2 less than zero.

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

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

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

22 (z) ~~For tax years that begin after December 31, 2018, deduct,~~  
23 **Deduct,** to the extent included in adjusted gross income,  
24 compensation received in the tax year pursuant to the wrongful  
25 imprisonment compensation act, 2016 PA 343, MCL 691.1751 to  
26 691.1757.

27 (aa) ~~For the 2016, 2017, 2018, and 2019 tax years and for each~~  
28 ~~tax year that begins~~ **tax years that begin** on and after January 1,  
29 2025, a taxpayer who is a disabled veteran may deduct, to the

1 extent included in adjusted gross income, income reported on a  
2 federal income tax form 1099-C that is attributable to the  
3 cancellation or discharge of a student loan by the United States  
4 Department of Education pursuant to the total and permanent  
5 disability discharge program, 34 CFR 685.213. As used in this  
6 subdivision, "disabled veteran" means an individual who meets  
7 either of the following criteria:

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

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

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

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

29 (i) To the extent not deducted in determining adjusted gross

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

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

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

17 (dd) For tax years that begin on and after January 1, 2022,  
18 add, to the extent not included in adjusted gross income, the  
19 amount of money withdrawn by the taxpayer in the tax year from a  
20 first-time home buyer savings account, not to exceed the total  
21 amount deducted under subdivision (cc) in the tax year and all  
22 previous tax years, if the withdrawal was not a qualified  
23 withdrawal as provided in the Michigan first-time home buyer  
24 savings program act, 2022 PA 6, MCL 565.1001 to 565.1013. This  
25 subdivision does not apply to withdrawals that are less than the  
26 sum of all contributions made to a first-time home buyer savings  
27 account in all previous tax years for which no deduction was  
28 claimed under subdivision (cc), less any contributions for which no  
29 deduction was claimed under subdivision (cc) that were withdrawn in

1 all previous tax years.

2 (ee) Subject to the limitations under this subdivision, for  
3 tax years beginning after December 31, 2025 and before January 1,  
4 2029, deduct, to the extent not deducted in determining adjusted  
5 gross income, an amount equal to the sum of the following  
6 deductions allowed to be claimed on the taxpayer's federal income  
7 tax return for the same tax year:

8 (i) Qualified tips under section 224 of the internal revenue  
9 code. For a nonresident, only qualified tips that are attributable  
10 to services performed in this state may be deducted.

11 (ii) Qualified overtime compensation under section 225 of the  
12 internal revenue code. For a nonresident, only qualified overtime  
13 compensation that is attributable to services performed in this  
14 state may be deducted.

15 (ff) For tax years beginning after December 31, 2024, adjusted  
16 gross income must be calculated as if both of the following  
17 conditions applied, subject to any necessary adjustments under  
18 subparagraph (iii):

19 (i) Sections 168(n) and 174A of the internal revenue code were  
20 not in effect.

21 (ii) Sections 163(j), 168(k), 174, and 179 of the internal  
22 revenue code applied as those provisions were in effect on December  
23 31, 2024.

24 (iii) The state treasurer shall, if necessary, modify the  
25 application of any references in the internal revenue code to the  
26 sections identified in subparagraphs (i) and (ii) in a reasonable  
27 manner to carry out the purpose of this subdivision, including, but  
28 not limited to, modifying the application of section references  
29 that were amended under Public Law 119-21.

1       **(gg) For tax years beginning after December 31, 2021, adjusted**  
2 **gross income must be calculated as if the transition rules under**  
3 **section 70302 of Public Law 119-21, including, but not limited to,**  
4 **any provisions related to the application of section 174A of the**  
5 **internal revenue code, do not apply.**

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

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

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

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

25       (3) Except as otherwise provided in subsection (7), a single  
26 additional exemption determined as follows shall be subtracted in  
27 the calculation that determines taxable income in each of the  
28 following circumstances:

29       (a) \$1,800.00 for each taxpayer and every dependent of the

1 taxpayer who is a deaf person as defined in section 2 of the deaf  
2 persons' interpreters act, 1982 PA 204, MCL 393.502; a paraplegic,  
3 a quadriplegic, or a hemiplegic; a person who is blind as defined  
4 in section 504; or a person who is totally and permanently disabled  
5 as defined in section 522. When a dependent of a taxpayer files an  
6 annual return under this part, the taxpayer or dependent of the  
7 taxpayer, but not both, may claim the additional exemption allowed  
8 under this subdivision.

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

15 (i) "Qualified disabled veteran" means a veteran with a  
16 service-connected disability.

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

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

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

29 (5) A nonresident or a part-year resident is allowed that

1 proportion of an exemption or deduction allowed under subsection  
2 (2), (3), or (4) that the taxpayer's portion of adjusted gross  
3 income from Michigan sources bears to the taxpayer's total adjusted  
4 gross income.

5 (6) In calculating taxable income, a taxpayer shall not  
6 subtract from adjusted gross income the amount of prizes won by the  
7 taxpayer under the McCauley-Traxler-Law-Bowman-McNeely lottery act,  
8 1972 PA 239, MCL 432.1 to 432.47.

9 (7) For each tax year beginning on and after January 1, 2013,  
10 the personal exemption allowed under subsection (2) shall be  
11 adjusted by multiplying the exemption for the tax year beginning in  
12 2012 by a fraction, the numerator of which is the United States  
13 Consumer Price Index for the state fiscal year ending in the tax  
14 year prior to the tax year for which the adjustment is being made  
15 and the denominator of which is the United States Consumer Price  
16 Index for the 2010-2011 state fiscal year. For the 2022 tax year  
17 and each tax year after 2022, the adjusted amount determined under  
18 this subsection shall be increased by an additional \$600.00. The  
19 resultant product shall be rounded to the nearest \$100.00  
20 increment. For each tax year, the exemptions allowed under  
21 subsection (3) shall be adjusted by multiplying the exemption  
22 amount under subsection (3) for the tax year by a fraction, the  
23 numerator of which is the United States Consumer Price Index for  
24 the state fiscal year ending the tax year prior to the tax year for  
25 which the adjustment is being made and the denominator of which is  
26 the United States Consumer Price Index for the 1998-1999 state  
27 fiscal year. The resultant product shall be rounded to the nearest  
28 \$100.00 increment.

29 (8) As used in this section, "retirement or pension benefits"

1 means distributions from all of the following:

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

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

7 (ii) Individual retirement accounts that qualify under section  
8 408 of the internal revenue code if the distributions are not made  
9 until the participant has reached 59-1/2 years of age, except in  
10 the case of death, disability, or distributions described by  
11 section 72(t)(2)(A)(iv) of the internal revenue code.

12 (iii) Employee annuities or tax-sheltered annuities purchased  
13 under section 403(b) of the internal revenue code by organizations  
14 exempt under section 501(c)(3) of the internal revenue code, or by  
15 public school systems.

16 (iv) Distributions from a 401(k) plan attributable to employee  
17 contributions mandated by the plan or attributable to employer  
18 contributions.

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

21 (i) Plans of the United States, state governments other than  
22 this state, and political subdivisions, agencies, or  
23 instrumentalities of this state.

24 (ii) Plans maintained by a church or a convention or  
25 association of churches.

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

29 (c) Retirement or pension benefits received by a surviving

1 spouse if those benefits qualified for a deduction prior to the  
2 decedent's death. Benefits received by a surviving child are not  
3 deductible.

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

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

9 (A) Deferred compensation plans under section 457 of the  
10 internal revenue code.

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

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

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

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

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

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

27 (b) Except as otherwise provided in subdivision (c), for a  
28 person born in 1946 through 1952, the sum of the deductions under  
29 subsection (1) (f) (i) , (ii) , and (iv) is limited to \$20,000.00 for a

1 single return and \$40,000.00 for a joint return. After that person  
2 reaches the age of 67, the deductions under subsection (1)(f)(i),  
3 (ii), and (iv) do not apply and that person is eligible for a  
4 deduction of \$20,000.00 for a single return and \$40,000.00 for a  
5 joint return, which deduction is available against all types of  
6 income and is not restricted to income from retirement or pension  
7 benefits. A person who takes the deduction under subsection (1)(e)  
8 is not eligible for the unrestricted deduction of \$20,000.00 for a  
9 single return and \$40,000.00 for a joint return under this  
10 subdivision.

11 (c) Beginning January 1, 2013 for a person born in 1946  
12 through 1952 and beginning January 1, 2018 for a person born after  
13 1945 who has retired as of January 1, 2013, if that person receives  
14 retirement or pension benefits from employment with a governmental  
15 agency that was not covered by the federal social security act,  
16 ~~chapter 531, 49 Stat 620, 42 USC 301 to 1397mm~~, the sum of the  
17 deductions under subsection (1)(f)(i), (ii), and (iv) is limited to  
18 \$35,000.00 for a single return and, except as otherwise provided  
19 under this subdivision, \$55,000.00 for a joint return. If both  
20 spouses filing a joint return receive retirement or pension  
21 benefits from employment with a governmental agency that was not  
22 covered by the federal social security act, ~~chapter 531, 49 Stat~~  
23 ~~620, 42 USC 301 to 1397mm~~, the sum of the deductions under  
24 subsection (1)(f)(i), (ii), and (iv) is limited to \$70,000.00 for a  
25 joint return. After that person reaches the age of 67, the  
26 deductions under subsection (1)(f)(i), (ii), and (iv) do not apply and  
27 that person is eligible for a deduction of \$35,000.00 for a single  
28 return and \$55,000.00 for a joint return, or \$70,000.00 for a joint  
29 return if applicable, which deduction is available against all

types of income and is not restricted to income from retirement or pension benefits. A person who takes the deduction under subsection (1)(e) is not eligible for the unrestricted deduction of \$35,000.00 for a single return and \$55,000.00 for a joint return, or \$70,000.00 for a joint return if applicable, under this subdivision.

(d) Except as otherwise provided under subdivision (c) for a person who was retired as of January 1, 2013, for a person born after 1952 who has reached the age of 62 through 66 years of age and who receives retirement or pension benefits from employment with a governmental agency that was not covered by the federal social security act, ~~chapter 531, 49 Stat 620,~~ **42 USC 301 to 1397mm**, the sum of the deductions under subsection (1)(f)(i), (ii), and (iv) is limited to \$15,000.00 for a single return and, except as otherwise provided under this subdivision, \$15,000.00 for a joint return. If both spouses filing a joint return receive retirement or pension benefits from employment with a governmental agency that was not covered by the federal social security act, ~~chapter 531, 49 Stat 620,~~ **42 USC 301 to 1397mm**, the sum of the deductions under subsection (1)(f)(i), (ii), and (iv) is limited to \$30,000.00 for a joint return.

(e) Except as otherwise provided under subdivision (c) or (d), for a person born after 1952, the deduction under subsection (1)(f)(i), (ii), or (iv) does not apply. When that person reaches the age of 67, that person is eligible for a deduction of \$20,000.00 for a single return and \$40,000.00 for a joint return, which deduction is available against all types of income and is not restricted to income from retirement or pension benefits. ~~If~~ **For tax years that begin before January 1, 2026 and after December**

1 **31,2028, if** a person takes the deduction of \$20,000.00 for a single  
 2 return and \$40,000.00 for a joint return, that person shall not  
 3 take the deduction under subsection (1)(f)(iii) and shall not take  
 4 the personal exemption under subsection (2). ~~That~~**For tax years**  
 5 **that begin before January 1, 2026 and after December 31, 2028, that**  
 6 person may elect not to take the deduction of \$20,000.00 for a  
 7 single return and \$40,000.00 for a joint return and elect to take  
 8 the deduction under subsection (1)(f)(iii) and the personal exemption  
 9 under subsection (2) if that election would reduce that person's  
 10 tax liability. **For tax years that begin on and after January 1,**  
 11 **2026 and before January 1, 2029, if a person takes the deduction of**  
 12 **\$20,000.00 for a single return or \$40,000.00 for a joint return,**  
 13 **that person shall not take the personal exemption under subsection**  
 14 **(2).** A person who takes the deduction under subsection (1)(e) is  
 15 not eligible for the unrestricted deduction of \$20,000.00 for a  
 16 single return and \$40,000.00 for a joint return under this  
 17 subdivision.

18 (f) For a joint return, the limitations and restrictions in  
 19 this subsection shall be applied based on the date of birth of the  
 20 older spouse filing the joint return. If a deduction under  
 21 subsection (1)(f) was claimed on a joint return for a tax year in  
 22 which a spouse died and the surviving spouse has not remarried  
 23 since the death of that spouse, the surviving spouse is entitled to  
 24 claim the deduction under subsection (1)(f) in subsequent tax years  
 25 subject to the same restrictions and limitations, for a single  
 26 return, that would have applied based on the date of birth of the  
 27 older of the 2 spouses. For tax years beginning after December 31,  
 28 2019, a surviving spouse born after 1945 who has reached the age of  
 29 67 and has not remarried since the death of that spouse may elect

1 to take the deduction that is available against all types of income  
2 subject to the same limitations and restrictions as provided under  
3 this subsection based on the surviving spouse's date of birth  
4 instead of taking the deduction allowed under subsection (1)(f),  
5 for a single return, based on the date of birth of the older  
6 spouse.

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

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

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

26 (c) For the 2025 tax year, a taxpayer who was born after 1945  
27 and before 1967 may deduct an amount of retirement or pension  
28 benefits not to exceed 75% of the maximum amount of retirement or  
29 pension benefits that the taxpayer would be allowed to deduct for

1 the tax year under subsection (1)(f)(iv) if the taxpayer's  
2 retirement or pension benefits were subject to the limitations of  
3 that subsection only.

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

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

20 (11) For tax years beginning on and after January 1, 2023, in  
21 determining taxable income under this section, a taxpayer with  
22 retirement or pension benefits received for services as a public  
23 police or fire department employee subject to 1969 PA 312, MCL  
24 423.231 to 423.247, a state police trooper or state police sergeant  
25 subject to 1980 PA 17, MCL 423.271 to 423.287, or a corrections  
26 officer employed by a county sheriff in a county jail, work camp,  
27 or other facility maintained by a county that houses adult  
28 prisoners may elect to deduct retirement or pension benefits as  
29 provided under subsection (1)(f) without any additional limitations

1 or restrictions or elect to apply the limitations and restrictions  
2 in subsection (9) or (10).

3 (12) As used in this section:

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

6 (b) "Senior citizen" means that term as defined in section  
7 514.

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

12 Sec. 36. (1) "Taxable income" in the case of a resident estate  
13 or trust means federal taxable income as defined in the internal  
14 revenue code subject to the following adjustments:

15 (a) Add gross interest income and dividends derived from  
16 obligations or securities of states other than Michigan, in the  
17 same amount which has been excluded from federal taxable income  
18 less related expenses not deducted in computing federal taxable  
19 income because of section 265 of the internal revenue code.

20 (b) Add taxes on or measured by income to the extent the taxes  
21 have been deducted in arriving at federal taxable income.

22 (c) Add losses on the sale or exchange of obligations of the  
23 United States government, the income of which this state is  
24 prohibited from subjecting to a net income tax, to the extent that  
25 the loss has been deducted in arriving at federal taxable income.

26 (d) Deduct, to the extent included in federal taxable income,  
27 income derived from obligations, or the sale or exchange of  
28 obligations, of the United States government which this state is  
29 prohibited by law from subjecting to a net income tax, reduced by

1 any interest on indebtedness incurred in carrying the obligations,  
2 and by any expenses incurred in the production of such income to  
3 the extent that the expenses, including amortizable bond premiums,  
4 were deducted in arriving at federal taxable income.

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

6 (f) Deduct an adjustment resulting from the allocation and  
7 apportionment provisions of chapter 3.

8 (g) For tax years beginning after December 31, 2011, eliminate  
9 all of the following:

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

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

14 (h) **For tax years beginning after December 31, 2024, federal**  
15 **taxable income must be calculated as if both of the following**  
16 **conditions applied, subject to any necessary adjustments under**  
17 **subparagraph (iii):**

18 (i) **Sections 168(n) and 174A of the internal revenue code were**  
19 **not in effect.**

20 (ii) **Sections 163(j), 168(k), 174, and 179 of the internal**  
21 **revenue code applied as those provisions were in effect on December**  
22 **31, 2024.**

23 (iii) **The state treasurer shall, if necessary, modify the**  
24 **application of any references in the internal revenue code to the**  
25 **sections identified in subparagraphs (i) and (ii) in a reasonable**  
26 **manner to carry out the purpose of this subdivision, including, but**  
27 **not limited to, modifying the application of section references**  
28 **that were amended under Public Law 119-21.**

29 (i) **For tax years beginning after December 31, 2021, federal**

1 **taxable income must be calculated as if the transition rules under**  
2 **section 70302 of Public Law 119-21, including, but not limited to,**  
3 **any provisions related to the application of section 174A of the**  
4 **internal revenue code, do not apply.**

5 (2) The respective shares of an estate or trust and its  
6 beneficiaries, including, solely for the purpose of this  
7 allocation, nonresident beneficiaries, in the additions and  
8 subtractions to taxable income shall be in proportion to their  
9 respective shares of distributable net income of the estate or  
10 trust as defined in the internal revenue code. If the estate or  
11 trust has no distributable net income for the taxable year, the  
12 share of each beneficiary in the additions and subtractions shall  
13 be in proportion to his or her share of the estate or trust income  
14 for the year, under local law or the terms of the instrument, which  
15 is required to be distributed currently and any other amounts of  
16 such income distributed in the year. Any balance of the additions  
17 and subtractions shall be allocated to the estate or trust. If  
18 capital gains and losses are distributed or distributable to a  
19 beneficiary or beneficiaries under the internal revenue code, the  
20 fiduciary shall advise each beneficiary of his or her share of the  
21 adjustment under section 271. The election or failure to elect  
22 under section 271 with respect to capital gains and losses taxable  
23 to the estate or trust shall not affect the beneficiary's right to  
24 elect or not to elect under section 271.

25 (3) An addition or subtraction shall not be made under this  
26 section which has the effect of duplicating an item of income or  
27 deduction if the taxpayer establishes to the satisfaction of the  
28 commissioner that the item is already reflected in federal taxable  
29 income. If an addition or subtraction with respect to the sale or

exchange of obligations of the United States government proper adjustment, in accordance with rules promulgated by the department, of the deduction for excess of capital gains over capital losses shall be made.

(4) 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 205.317.

Sec. 607. (1) "Federal taxable income" means taxable income as defined in section 63 of the internal revenue code, except that federal taxable income shall be calculated ~~as if section in the~~ following manner under the following circumstances:

(a) For tax years that begin before January 1, 2025, federal taxable income must be calculated as if sections 168(k) and section 199 of the internal revenue code were not in effect.

(b) For tax years beginning after December 31, 2024, federal taxable income must be calculated as if both of the following conditions applied, subject to any necessary adjustments under subparagraph (iii):

(i) Sections 168(k), 168(n), and 174A of the internal revenue code were not in effect.

(ii) Sections 163(j), 174, and 179 of the internal revenue code applied as those provisions were in effect on December 31, 2024.

(iii) The state treasurer shall, if necessary, modify the application of any references in the internal revenue code to the sections identified in subparagraphs (i) and (ii) in a reasonable manner to carry out the purpose of this subdivision, including, but not limited to, modifying the application of section references that were amended under Public Law 119-21.

(c) For tax years beginning after December 31, 2021, federal

1 **taxable income must be calculated as if the transition rules under**  
2 **section 70302 of Public Law 119-21, including, but not limited to,**  
3 **any provisions related to the application of section 174A of the**  
4 **internal revenue code, do not apply.**

5 (2) "Flow-through entity" means an entity that for the  
6 applicable tax year is treated as a subchapter S corporation under  
7 section 1362(a) of the internal revenue code, a general  
8 partnership, a trust, a limited partnership, a limited liability  
9 partnership, or a limited liability company, that for the tax year  
10 is not taxed as a corporation for federal income tax purposes.  
11 Flow-through entity does not include any entity disregarded or  
12 treated as a corporation under section 699.

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

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

18 (b) Has substantial operations outside the United States, the  
19 District of Columbia, any territory or possession of the United  
20 States except for the Commonwealth of Puerto Rico, or a political  
21 subdivision of any of the foregoing.

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

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

29 (a) Proceeds from sales by a principal that the taxpayer

1 collects in an agency capacity solely on behalf of the principal  
2 and delivers to the principal.

3 (b) Amounts received by the taxpayer as an agent solely on  
4 behalf of the principal that are expended by the taxpayer for any  
5 of the following:

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

9 (ii) The performance of a service by a third party for the  
10 benefit of the principal that the taxpayer has not undertaken a  
11 contractual duty to perform.

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

16 (iv) A capital asset of a type that is, or under the internal  
17 revenue code will become, eligible for depreciation, amortization,  
18 or accelerated cost recovery by the principal for federal income  
19 tax purposes, or for real property owned or leased by the  
20 principal.

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

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

28 (c) Amounts that are excluded from gross income of a foreign  
29 corporation engaged in the international operation of aircraft

1 under section 883(a) of the internal revenue code.

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

5 (e) Notwithstanding any other provision of this section,  
6 amounts received by a taxpayer that manages real property owned by  
7 the taxpayer's client that are deposited into a separate account  
8 kept in the name of the taxpayer's client and that are not  
9 reimbursements to the taxpayer and are not indirect payments for  
10 management services that the taxpayer provides to that client.

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

16 (g) Proceeds from any of the following:

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

18 (ii) The original issue of debt instruments.

19 (h) Refunds from returned merchandise.

20 (i) Cash and in-kind discounts.

21 (j) Trade discounts.

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

23 (l) Security deposits.

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

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

26 (o) Proceeds from a sale, transaction, exchange, involuntary  
27 conversion, or other disposition of tangible, intangible, or real  
28 property that is a capital asset as defined in section 1221(a) of  
29 the internal revenue code or land that qualifies as property used

1 in the trade or business as defined in section 1231(b) of the  
 2 internal revenue code, less any gain from the disposition to the  
 3 extent that gain is included in federal taxable income.

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

7 (5) "Insurance company" means an authorized insurer as defined  
 8 in section 108 of the insurance code of 1956, 1956 PA 218, MCL  
 9 500.108. Insurance company does not include a health maintenance  
 10 organization authorized under chapter 35 of the insurance code of  
 11 1956, 1956 PA 218, MCL 500.3501 to 500.3573.

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

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

20 Sec. 695. ~~(1) Except as otherwise provided under this section,~~  
 21 ~~the revenue collected under this part shall be distributed to the~~  
 22 ~~general fund. If the amendatory act that added section 51h takes~~  
 23 ~~effect before April 18, 2023, then for the 2021-2022 state fiscal~~  
 24 ~~year only, from the tax levied under this part, \$800,000,000.00 of~~  
 25 ~~the revenue collected is appropriated and must be deposited into~~  
 26 ~~the state treasury to the credit of the Michigan taxpayer rebate~~  
 27 ~~fund created in section 51h, and the balance of the revenue~~  
 28 ~~collected under this part for that state fiscal year shall be~~  
 29 ~~deposited to the general fund.~~

1        **(1) ~~(2)~~** Beginning with the 2022-2023 state fiscal year through  
 2 the ~~2024-2025~~ **2023-2024** state fiscal year, from the tax levied  
 3 under this part, the revenue collected under this part ~~shall~~ **must**  
 4 be deposited in the following manner:

5        (a) Up to \$1,200,000,000.00 to the general fund.

6        (b) After the deposit under subdivision (a), up to  
 7 \$50,000,000.00, if available, to the Michigan housing and community  
 8 development fund created in section 58a of the state housing  
 9 development authority act of 1966, 1966 PA 346, MCL 125.1458a.

10       (c) After the deposits under subdivisions (a) and (b), up to  
 11 \$50,000,000.00, if available, to the revitalization and placemaking  
 12 fund created in section 696.

13       (d) After the deposits under subdivisions (a), (b), and (c),  
 14 up to \$500,000,000.00, if available, to the strategic outreach and  
 15 attraction reserve fund created in section 4 of the Michigan trust  
 16 fund act, 2000 PA 489, MCL 12.254.

17       (e) The balance of any revenue collected under this part after  
 18 the deposits under subdivisions (a), (b), (c), and (d), to the  
 19 general fund.

20       **(2) For 2024-2025 state fiscal year only, from the tax levied**  
 21 **under this part, the revenue collected under this part must be**  
 22 **deposited in the following manner:**

23       (a) Up to \$1,200,000,000.00 to the general fund.

24       (b) After the deposit under subdivision (a), up to  
 25 \$50,000,000.00, if available, to the Michigan housing and community  
 26 development fund created in section 58a of the state housing  
 27 development authority act of 1966, 1966 PA 346, MCL 125.1458a.

28       (c) After the deposits under subdivisions (a) and (b), up to  
 29 \$50,000,000.00, if available, to the revitalization and placemaking

1 fund created in section 696.

2 (d) After the deposits under subdivisions (a), (b), and (c),  
3 up to \$250,000,000.00, if available, to the healthy Michigan fund  
4 created in section 5953 of the public health code, 1978 PA 368, MCL  
5 333.5953.

6 (e) The balance of any revenue collected under this part after  
7 the deposits under subdivisions (a), (b), (c), and (d), to the  
8 general fund.

9 (3) ~~Beginning with~~ For the 2025-2026 state fiscal year only,  
10 from the tax levied under this part, ~~\$50,000,000.00 of the revenue~~  
11 ~~collected under this part shall be deposited to the Michigan~~  
12 ~~housing and community development fund created in section 58a of~~  
13 ~~the state housing development authority act of 1966, 1966 PA 346,~~  
14 ~~MCL 125.1458a, and the balance of the revenue collected under this~~  
15 ~~part for that state fiscal year shall be deposited to the general~~  
16 ~~fund.~~ must be deposited in the following manner:

17 (a) Up to \$1,200,000,000.00 to the general fund.

18 (b) After the deposit under subdivision (a), up to  
19 \$50,000,000.00, if available, to the Michigan housing and community  
20 development fund created in section 58a of the state housing  
21 development authority act of 1966, 1966 PA 346, MCL 125.1458a.

22 (c) After the deposits under subdivisions (a) and (b), up to  
23 \$688,000,000.00, if available, to the neighborhood road fund  
24 created in section 13c of 1951 PA 51, MCL 247.663c.

25 (d) The balance of the revenue collected under this part after  
26 the deposits under subdivisions (a) through (c) to the general  
27 fund.

28 (4) For the 2026-2027 state fiscal year only, from the tax  
29 levied under this part, the revenue collected under this part must

1 be deposited in the following manner:

2 (a) Up to \$1,200,000,000.00 to the general fund.

3 (b) After the deposit under subdivision (a), up to  
4 \$50,000,000.00, if available, to the Michigan housing and community  
5 development fund created in section 58a of the state housing  
6 development authority act of 1966, 1966 PA 346, MCL 125.1458a.

7 (c) After the deposits under subdivisions (a) and (b), up to  
8 \$776,000,000.00, if available, to the neighborhood road fund  
9 created in section 13c of 1951 PA 51, MCL 247.663c.

10 (d) The balance of the revenue collected under this part after  
11 the deposits under subdivisions (a) through (c) to the general  
12 fund.

13 (5) For the 2027-2028 state fiscal year only, from the tax  
14 levied under this part, the revenue collected under this part must  
15 be deposited in the following manner:

16 (a) Up to \$1,200,000,000.00 to the general fund.

17 (b) After the deposit under subdivision (a), up to  
18 \$50,000,000.00, if available, to the Michigan housing and community  
19 development fund created in section 58a of the state housing  
20 development authority act of 1966, 1966 PA 346, MCL 125.1458a.

21 (c) After the deposits under subdivisions (a) and (b), up to  
22 \$864,000,000.00, if available, to the neighborhood road fund  
23 created in section 13c of 1951 PA 51, MCL 247.663c.

24 (d) The balance of the revenue collected under this part after  
25 the deposits under subdivisions (a) through (c) to the general  
26 fund.

27 (6) For the 2028-2029 state fiscal year only, from the tax  
28 levied under this part, the revenue collected under this part must  
29 be deposited in the following manner:

1 (a) Up to \$1,200,000,000.00 to the general fund.

2 (b) After the deposit under subdivision (a), up to  
3 \$50,000,000.00, if available, to the Michigan housing and community  
4 development fund created in section 58a of the state housing  
5 development authority act of 1966, 1966 PA 346, MCL 125.1458a.

6 (c) After the deposits under subdivisions (a) and (b), up to  
7 \$952,000,000.00, if available, to the neighborhood road fund  
8 created in section 13c of 1951 PA 51, MCL 247.663c.

9 (d) The balance of the revenue collected under this part after  
10 the deposits under subdivisions (a) through (c) to the general  
11 fund.

12 (7) Beginning with the 2029-2030 state fiscal year, from the  
13 tax levied under this part, the revenue collected under this part  
14 must be deposited in the following manner:

15 (a) Up to \$1,200,000,000.00 to the general fund.

16 (b) After the deposit under subdivision (a), up to  
17 \$50,000,000.00, if available, to the Michigan housing and community  
18 development fund created in section 58a of the state housing  
19 development authority act of 1966, 1966 PA 346, MCL 125.1458a.

20 (c) After the deposits under subdivisions (a) and (b), up to  
21 \$1,040,000,000.00, if available, to the neighborhood road fund  
22 created in section 13c of 1951 PA 51, MCL 247.663c.

23 (d) The balance of the revenue collected under this part after  
24 the deposits under subdivisions (a) through (c) to the general  
25 fund.

26 Sec. 805. (1) "Federal taxable income" means taxable income as  
27 defined in section 63 of the internal revenue code without the  
28 deductions described under section 703(a)(2) of the internal  
29 revenue code and federal taxable income must also be calculated in

1 the following manner under the following circumstances:

2 (a) For tax years beginning after December 31, 2021, as if the  
3 transition rules under section 70302 of Public Law 119-21,  
4 including, but not limited to, any provisions related to the  
5 application of section 174A of the internal revenue code, do not  
6 apply.

7 (b) For tax years beginning after December 31, 2024, as if  
8 both of the following conditions applied, subject to any necessary  
9 adjustments under subparagraph (iii):

10 (i) Sections 168(n) and 174A of the internal revenue code were  
11 not in effect.

12 (ii) Sections 163(j), 168(k), 174, and 179 of the internal  
13 revenue code applied as those provisions were in effect on December  
14 31, 2024.

15 (iii) The state treasurer shall, if necessary, modify the  
16 application of any references in the internal revenue code to the  
17 sections identified in subparagraphs (i) and (ii) in a reasonable  
18 manner to carry out the purpose of this subdivision, including, but  
19 not limited to, modifying the application of section references  
20 that were amended under Public Law 119-21.

21 (c) For the purposes of this part in computing federal taxable  
22 income **under this subsection**, an S corporation ~~shall be~~ **is** treated  
23 as a corporation under section 1361(a)(2) of the internal revenue  
24 code and a partnership ~~shall be~~ **is** treated as an association  
25 taxable as a corporation pursuant to an election under 26 CFR  
26 301.7701-3(a).

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

29 (3) "Flow-through entity" means an entity that for the

1 applicable tax year is treated as an S corporation or a partnership  
2 under the internal revenue code for federal income tax purposes.  
3 Flow-through entity does not include a publicly traded partnership,  
4 any entity disregarded or treated as a corporation under section  
5 845, or any person subject to the tax imposed under chapter 13.

6 (4) "Insurance company" means that term as defined in section  
7 607.

8 (5) "Internal revenue code" means the United States internal  
9 revenue code of 1986 in effect on January 1, ~~2021~~**2025** or, at the  
10 option of the taxpayer, in effect for the tax year.

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

14 Enacting section 1. Section 51d of the income tax act of 1967,  
15 1967 PA 281, MCL 206.51d, is repealed effective September 30, 2025.

16 Enacting section 2. This amendatory act does not take effect  
17 unless all of the following bills of the 103rd Legislature are  
18 enacted into law:

19 (a) House Bill No. 4183.

20 (b) House Bill No. 4951.

21 (c) House Bill No. 4968.