



HOUSE BILL No. 5949

November 29 1994 Introduced by Reps Profit Palamara and Bullard and referred to the Committee on Taxation

A bill to amend sections 30 and 51 of Act No 281 of the Public Acts of 1967, entitled

Income tax act of 1967

section 30 as amended by Act No 268 of the Public Acts of 1994 and section 51 as amended by Act No 328 of the Public Acts of 1993 being sections 206 30 and 206 51 of the Michigan Compiled Laws

THE PEOPLE OF THE STATE OF MICHIGAN ENACT

1 Section 1 Sections 30 and 51 of Act No 281 of the Public
2 Acts of 1967 section 30 as amended by Act No 268 of the Public
3 Acts of 1994 and section 51 as amended by Act No 328 of the
4 Public Acts of 1993, being sections 206 30 and 206 51 of the
5 Michigan Compiled Laws are amended to read as follows

6 Sec 30 (1) Taxable income' means for a person other
7 than a corporation estate or trust adjusted gross income as

1 defined in the internal revenue code subject to the following
2 adjustments

3 (a) Add gross interest income and dividends derived from
4 obligations or securities of states other than Michigan in the
5 same amount that has been excluded from adjusted gross income
6 less related expenses not deducted in computing adjusted gross
7 income because of section 265(a)(1) of the internal revenue
8 code

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

11 (c) Add losses on the sale or exchange of obligations of the
12 United States government the income of which this state is pro-
13 hibited from subjecting to a net income tax to the extent that
14 the loss has been deducted in arriving at adjusted gross income

15 (d) Deduct to the extent included in adjusted gross income
16 income derived from obligations or the sale or exchange of obli-
17 gations of the United States government that this state is pro-
18 hibited by law from subjecting to a net income tax reduced by
19 any interest on indebtedness incurred in carrying the obligations
20 and by any expenses incurred in the production of that income to
21 the extent that the expenses including amortizable bond premi-
22 ums were deducted in arriving at adjusted gross income

23 (e) Deduct to the extent included in adjusted gross income,
24 compensation, including retirement benefits, received for serv-
25 ices in the armed forces of the United States

26 (f) Deduct the following to the extent included in adjusted
27 gross income

1 (1) 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 (2) 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
10 the political subdivisions of this state

11 (3) Social security benefits as defined in section 86 of
12 the internal revenue code

13 (4) Before October 1 1994 retirement or pension benefits
14 from any other retirement or pension system as follows

15 (A) For a single return the sum of not more than
16 \$7 500 00

17 (B) For a joint return the sum of not more than
18 \$10 000 00

19 (5) After September 30 1994 retirement or pension benefits
20 not deductible under subparagraph (1) or subdivision (e) from any
21 other retirement or pension system or benefits from a retirement
22 annuity policy in which payments are made for life to a senior
23 citizen ~~or a surviving spouse of a senior citizen as defined in~~
24 ~~section 514,~~ to a maximum of the amounts provided for in section
25 30a The maximum amounts allowed under this subparagraph shall
26 be reduced by the amount of the deduction for retirement or
27 pension benefits allowed under subparagraph (1) or subdivision

1 (e) For the 1995 tax year and each tax year after 1995 the
 2 maximum amounts allowed under this subparagraph shall be adjusted
 3 by the percentage increase in the Detroit consumer price index
 4 for the immediately preceding calendar year The department
 5 shall annualize the amounts provided in this subparagraph and
 6 subparagraph (iv) as necessary for tax years that end after
 7 September 30 1994 AS USED IN THIS SUBPARAGRAPH SENIOR
 8 CITIZEN MEANS THAT TERM AS DEFINED IN SECTION 514

9 (vi) The amount determined to be the section 22 amount eli-
 10 gible for the elderly and permanently and totally disabled credit
 11 provided in section 22 of the internal revenue code

12 (g) Adjustments resulting from the application of section
 13 271

14 (h) Adjustments with respect to estate and trust income as
 15 provided in section 36

16 (i) Adjustments resulting from the allocation and apportion-
 17 ment provisions of chapter 3

18 (j) Deduct political contributions as described in section 4
 19 of the Michigan campaign finance act Act No 388 of the Public
 20 Acts of 1976 being section 169 204 of the Michigan Compiled
 21 Laws, or section 301 of title III of the federal election cam-
 22 paign act of 1971 Public Law 92-225, 2 U S C 431, not in excess
 23 of \$50 00 per annum, or \$100 00 per annum for a joint return

24 (k) Deduct, to the extent included in adjusted gross income,
 25 wages not deductible under section 280C of the internal revenue
 26 code

1 (1) Deduct the following payments made by the taxpayer in
2 the tax year

3 (1) The amount of payment made under an advance tuition pay-
4 ment contract as provided in the Michigan education trust act,
5 Act No 316 of the Public Acts of 1986, being sections 390 1421
6 to 390 1444 of the Michigan Compiled Laws

7 (11) The amount of payment made under a contract with a pri-
8 vate sector investment manager that meets all of the following
9 criteria

10 (A) The contract is certified and approved by the board of
11 directors of the Michigan education trust to provide equivalent
12 benefits and rights to purchasers and beneficiaries as an advance
13 tuition payment contract as described in subparagraph (1)

14 (B) The contract applies only for a state institution of
15 higher education as defined in the Michigan education trust act,
16 Act No 316 of the Public Acts of 1986, or a community or junior
17 college in Michigan

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

21 (D) The contract is entered into after either of the
22 following

23 (I) The purchaser has had his or her offer to enter into an
24 advance tuition payment contract rejected by the board of direc-
25 tors of the Michigan education trust, if the board determines
26 that the trust cannot accept an unlimited number of enrollees
27 upon 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 (m) If an advance tuition payment contract under the
5 Michigan education trust act Act No 316 of the Public Acts of
6 1986 or another contract for which the payment was deductible
7 under subdivision (l) is terminated and the qualified beneficiary
8 under that contract does not attend a university college junior
9 or community college or other institution of higher education,
10 add the amount of a refund received by the taxpayer as a result
11 of that termination or the amount of the deduction taken under
12 subdivision (l) for payment made under that contract whichever
13 is less

14 (n) Deduct from the taxable income of a purchaser the amount
15 included as income to the purchaser under the internal revenue
16 code after the advance tuition payment contract entered into
17 under the Michigan education trust act Act No 316 of the Public
18 Acts of 1986 is terminated because the qualified beneficiary
19 attends an institution of postsecondary education other than
20 either a state institution of higher education or an institution
21 of postsecondary education located outside this state with which
22 a state institution of higher education has reciprocity

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

26 (p) Deduct a net operating loss deduction for the taxable
27 year as defined in section 172 of the internal revenue code

1 subject to the modifications under section 172(b)(2) of the
 2 internal revenue code and subject to the allocation and appor-
 3 tionment provisions of chapter 3 of this act for the taxable year
 4 in which the loss was incurred

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

8 (r) After September 30 1994 a taxpayer who is a senior
 9 citizen as defined in section 514 may deduct to the extent
 10 included in adjusted gross income, interest and dividends
 11 received in the tax year not to exceed \$1 000 00 for a single
 12 return or \$2 000 00 for a joint return However, the deduction
 13 under this subdivision shall not be taken if the taxpayer takes a
 14 deduction for retirement benefits under subdivision (e) or a
 15 deduction under subdivision (f)(i) (ii) (iv) or (v) For the
 16 1995 tax year and each tax year after 1995 the maximum amounts
 17 allowed under this subdivision shall be adjusted by the percen-
 18 tage increase in the Detroit consumer price index for the immedi-
 19 ately preceding calendar year The department shall annualize
 20 the amounts provided in this subdivision as necessary for tax
 21 years that end after September 30 1994

22 (2) The following personal exemptions multiplied by the
 23 number of personal or dependency exemptions allowable on the
 24 taxpayer s federal income tax return pursuant to the internal
 25 revenue code shall be subtracted from taxable income

26 (a) For a tax year beginning during 1987 \$1,600 00

1 (b) For a tax year beginning during 1988 \$1 800 00
 2 (c) For a tax year beginning during 1989 \$2 000 00
 3 (d) For a tax year beginning after 1989 AND
 4 BEFORE 1995 \$2,100 00
 5 (E) FOR A TAX YEAR BEGINNING AFTER 1994 \$2 600 00
 6 (3) A single additional exemption of \$1,400 00 for a tax
 7 year beginning during 1987 \$1 200 00 for a tax year beginning
 8 during 1988 \$1 000 00 for a tax year beginning during 1989 and
 9 \$900 00 for a tax year beginning after 1989 is allowed in each of
 10 the following circumstances
 11 (a) The taxpayer is a paraplegic a quadriplegic a hemiple-
 12 gic a person who is blind as defined in section 504 or a
 13 totally and permanently disabled person as defined in section
 14 522
 15 (b) The taxpayer is a deaf person as defined in section 2 of
 16 the deaf persons interpreters act, Act No 204 of the Public
 17 Acts of 1982 being section 393 502 of the Michigan Compiled
 18 Laws
 19 (c) The taxpayer is 65 years of age or older
 20 (d) The return includes unemployment compensation that
 21 amounts to 50% or more of adjusted gross income
 22 (4) For a tax year beginning after 1987 an individual with
 23 respect to whom a deduction under section 151 of the internal
 24 revenue code is allowable to another federal taxpayer during the
 25 tax year is not considered to have an allowable federal exemption
 26 for purposes of subsection (2), but may deduct \$500 00 from

1 taxable income for a tax year beginning in 1988 and \$1,000 00 for
2 a tax year beginning after 1988

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

8 (6) For a tax year beginning after 1987 in calculating tax-
9 able income a taxpayer shall not subtract from adjusted gross
10 income the amount of prizes won by the taxpayer under the
11 McCauley-Traxler-Law-Bowman-McNeely lottery act, Act No 239 of
12 the Public Acts of 1972, being sections 432 1 to 432 47 of the
13 Michigan Compiled Laws

14 Sec 51 (1) For receiving, earning, or otherwise acquiring
15 income from any source whatsoever, there is levied and imposed
16 upon the taxable income of every person other than a corporation
17 a tax at the following rates in the following circumstances

18 (a) Before May 1, 1994 4 6%

19 (b) After April 30, 1994, ~~if the sales tax is levied at a~~
20 ~~rate of 4% under the general sales tax act, Act No 167 of the~~
21 ~~Public Acts of 1933, being sections 205 51 to 205 78 of the~~
22 ~~Michigan Compiled Laws, 4 6% plus an additional 1 4% 4 4%~~

23 (c) After ~~April 30~~ DECEMBER 31, 1994, ~~if the sales tax is~~
24 ~~levied at a rate of 6% under Act No 167 of the Public Acts of~~
25 ~~1933, 4 6% minus 0 2% 4 2%~~

26 (2) The following percentages of the net revenues collected
27 under this section shall be deposited in the state school aid

1 fund created in section 11 of article IX of the state
2 constitution of 1963

3 ~~(a) Beginning May 1, 1994, 100% of the gross collections~~
4 ~~before refunds from the additional rate levied pursuant to sub-~~
5 ~~section (1)(b) minus the amount of income tax over withholding~~
6 ~~attributable to that additional rate~~

7 (A) ~~(b)~~ Beginning October 1, 1994, ~~10.5%~~ 14.4% of the
8 gross collections before refunds from the tax levied at a rate of
9 ~~4.6% if the sales tax is levied at a rate of 4% under Act~~
10 ~~No 167 of the Public Acts of 1933~~ 4.4% UNDER

11 SUBSECTION (1)(B)

12 (B) ~~(c)~~ Beginning ~~October 1, 1994, 14.4%~~ JANUARY 1
13 1995, 15.4% of the gross collections before refunds from the tax
14 levied at a rate of ~~4.4%~~ 4.2% under subsection (1)(c) ~~if the~~
15 ~~sales tax is levied at a rate of 6% under Act No 167 of the~~
16 ~~Public Acts of 1933~~

17 (3) The department shall annualize rates provided in subsec-
18 tion (1) as necessary for tax years that end after April 30
19 1994. The applicable annualized rate shall be imposed upon the
20 taxable income of every person other than a corporation for those
21 tax years.

22 (4) The taxable income of a nonresident shall be computed in
23 the same manner that the taxable income of a resident is comput-
24 ed, subject to the allocation and apportionment provisions of
25 this act.

26 (5) A resident beneficiary of a trust whose taxable income
27 includes all or part of an accumulation distribution by a trust,

1 as defined in section 665 of the internal revenue code, shall be
2 allowed a credit against the tax otherwise due under this act
3 The credit shall be all or a proportionate part of any tax paid
4 by the trust under this act for any preceding taxable year that
5 would not have been payable if the trust had in fact made distri-
6 bution to its beneficiaries at the times and in the amounts spec-
7 ified in section 666 of the internal revenue code The credit
8 shall not reduce the tax otherwise due from the beneficiary to an
9 amount less than would have been due if the accumulation distri-
10 bution were excluded from taxable income

11 (6) The taxable income of a resident who is required to
12 include income from a trust in his or her federal income tax
13 return under the provisions of subpart E of part I of subchapter
14 J of chapter 1 of the internal revenue code, 26 U S C 671 to
15 679 shall include items of income and deductions from the trust
16 in taxable income to the extent required by this act with respect
17 to property owned outright

18 (7) It is the intention of this section that the income
19 subject to tax of every person other than corporations shall be
20 computed in like manner and be the same as provided in the inter-
21 nal revenue code subject to adjustments specifically provided for
22 in this act

23 (8) As used in this section

24 (a) Person other than a corporation means a resident or
25 nonresident individual or any of the following

26 (1) A partner in a partnership as defined in the internal
27 revenue code

1 (11) A beneficiary of an estate or a trust as defined in the
2 internal revenue code

3 (111) An estate or trust as defined in the internal revenue
4 code

5 (b) Taxable income means taxable income as defined in this
6 act subject to the applicable source and attribution rules con-
7 tained in this act