

**SUBSTITUTE FOR  
HOUSE BILL NO. 5978**

A bill to amend 1967 PA 281, entitled  
"Income tax act of 1967,"  
by amending sections 30 and 51 (MCL 206.30 and 206.51), section  
30 as amended by 1997 PA 86 and section 51 as amended by 1995 PA  
194; and to repeal acts and parts of acts.

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

1       Sec. 30. (1) "Taxable income" means, for a person other  
2 than a corporation, estate, or trust, adjusted gross income as  
3 defined in the internal revenue code subject to the following  
4 adjustments and the adjustments provided in subsections (2) to  
5 (4):

6       (a) Add gross interest income and dividends derived from  
7 obligations or securities of states other than Michigan, in the  
8 same amount that has been excluded from adjusted gross income  
9 less related expenses not deducted in computing adjusted gross

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

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

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

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

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

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

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

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

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

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

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

9 (A) For a single return, the sum of not more than  
10 \$7,500.00.

11 (B) For a joint return, the sum of not more than  
12 \$10,000.00.

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

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1 subparagraph (iv) as necessary for tax years that end after  
2 September 30, 1994. As used in this subparagraph, "senior  
3 citizen" means that term as defined in section 514.

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

7 (g) Adjustments resulting from the application of section  
8 271.

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

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

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

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

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

23 (i) The amount of payment made under an advance tuition pay-  
24 ment contract as provided in the Michigan education trust act,  
25 1986 PA 316, MCL 390.1421 to 390.1444.

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1       (ii) The amount of payment made under a contract with a  
2 private sector investment manager that meets all of the following  
3 criteria:

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

8       (B) The contract applies only for a state institution of  
9 higher education as defined in the Michigan education trust act,  
10 1986 PA 316, MCL 390.1421 to 390.1444, or a community or junior  
11 college in Michigan.

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

15       (D) The contract is entered into after either of the  
16 following:

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

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

25       (m) If an advance tuition payment contract under the  
26 Michigan education trust act, 1986 PA 316, MCL 390.1421 to  
27 390.1444, or another contract for which the payment was

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1 deductible under subdivision (1) is terminated and the qualified  
2 beneficiary under that contract does not attend a university,  
3 college, junior or community college, or other institution of  
4 higher education, add the amount of a refund received by the tax-  
5 payer as a result of that termination or the amount of the deduc-  
6 tion taken under subdivision (1) for payment made under that con-  
7 tract, whichever is less.

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

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

20       (p) Deduct a net operating loss deduction for the taxable  
21 year as determined under section 172 of the internal revenue code  
22 subject to the modifications under section 172(b)(2) of the  
23 internal revenue code and subject to the allocation and appor-  
24 tionment provisions of chapter 3 of this act for the taxable year  
25 in which the loss was incurred.

26       (q) For a tax year beginning after 1986, deduct, to the  
27 extent included in adjusted gross income, benefits from a

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1 discriminatory self-insurance medical expense reimbursement  
2 plan.

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

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1 years that end after September 30, 1994. As used in this  
2 subdivision, "senior citizen" means that term as defined in sec-  
3 tion 514.

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

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

8 (ii) The amount of a refund received in the tax year based  
9 on taxes paid under the city income tax act, 1964 PA 284, MCL  
10 141.501 to 141.787.

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

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

23 (u) ~~For the 1998 tax year and each tax year after the 1998~~  
24 ~~tax year, deduct the amount calculated under section 30d.~~ DEDUCT  
25 THE "CHILD CARE ACT OF 1997" DEDUCTION PROVIDED UNDER THIS  
26 SUBDIVISION. FOR THE 1998 TAX YEAR AND EACH TAX YEAR AFTER THE  
27 1998 TAX YEAR, A TAXPAYER MAY DEDUCT THE FOLLOWING AMOUNTS:

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1 (i) AN AMOUNT EQUAL TO \$600.00 MULTIPLIED BY THE NUMBER OF  
2 EXEMPTIONS CLAIMED BY THE TAXPAYER UNDER SUBSECTION (2) IN THE  
3 TAX YEAR FOR DEPENDENTS OF THE TAXPAYER WHO ARE CHILDREN YOUNGER  
4 THAN 7 YEARS OF AGE ON THE LAST DAY OF THE TAX YEAR IN WHICH THE  
5 DEDUCTION UNDER THIS SUBDIVISION IS CLAIMED.

6 (ii) AN AMOUNT EQUAL TO \$300.00 MULTIPLIED BY THE NUMBER OF  
7 EXEMPTIONS CLAIMED BY THE TAXPAYER UNDER SUBSECTION (2) IN THE  
8 TAX YEAR FOR DEPENDENTS OF THE TAXPAYER WHO ARE CHILDREN AND WHO  
9 ARE AT LEAST 7 YEARS OF AGE AND YOUNGER THAN 13 YEARS OF AGE ON  
10 THE LAST DAY OF THE TAX YEAR IN WHICH THE DEDUCTION UNDER THIS  
11 SUBDIVISION IS CLAIMED.

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

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

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

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

20 (d) For a tax year beginning after 1989 and before  
21 1995..... \$2,100.00.

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

23 (f) Except as otherwise provided in ~~subsection (7)~~  
24 SUBSECTIONS (7) AND (8), for a tax year beginning after  
25 1996..... \$2,500.00.

26 (3) A single additional exemption of \$1,400.00 for a tax  
27 year beginning during 1987, \$1,200.00 for a tax year beginning

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1 during 1988, \$1,000.00 for a tax year beginning during 1989, and  
2 \$900.00 for a tax year beginning after 1989 shall be subtracted  
3 in the calculation that determines taxable income in each of the  
4 following circumstances:

5 (a) The taxpayer is a paraplegic, a quadriplegic, a hemiple-  
6 gic, a person who is blind as defined in section 504, or a PERSON  
7 WHO IS totally and permanently disabled ~~person~~ as defined in  
8 section 522.

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

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

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

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

21 (5) A nonresident or a part-year resident is allowed that  
22 proportion of an exemption or deduction allowed under subsection  
23 (2), (3), or (4) that the taxpayer's portion of adjusted gross  
24 income from Michigan sources bears to the taxpayer's total  
25 adjusted gross income.

26 (6) For a tax year beginning after 1987, in calculating  
27 taxable income, a taxpayer shall not subtract from adjusted gross

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1 income the amount of prizes won by the taxpayer under the  
2 McCauley-Traxler-Law-Bowman-McNeely lottery act, 1972 PA 239, MCL  
3 432.1 to 432.47.

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

19       (8) FOR THE 1999 TAX YEAR AND EACH TAX YEAR AFTER THE 1999  
20 TAX YEAR, A TAXPAYER WHO PAYS THE TAX RATE AS PROVIDED IN SECTION  
21 51(1)(C) MAY CLAIM PERSONAL EXEMPTIONS EQUAL TO \$5,000.00, AS  
22 ADJUSTED UNDER THIS SUBSECTION, MULTIPLIED BY THE NUMBER OF PER-  
23 SONAL OR DEPENDENCY EXEMPTIONS ALLOWABLE ON THE TAXPAYER'S FED-  
24 ERAL INCOME TAX RETURN PURSUANT TO THE INTERNAL REVENUE CODE  
25 WHICH SHALL BE SUBTRACTED IN THE CALCULATION THAT DETERMINES TAX-  
26 ABLE INCOME UNDER THIS SECTION. FOR THE 2000 TAX YEAR AND EACH  
27 TAX YEAR AFTER THE 2000 TAX YEAR, THE PERSONAL EXEMPTION ALLOWED

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1 UNDER THIS SUBSECTION SHALL BE ADJUSTED BY MULTIPLYING THE  
2 EXEMPTION FOR THE TAX YEAR BEGINNING IN 1999 BY A FRACTION, THE  
3 NUMERATOR OF WHICH IS THE UNITED STATES CONSUMER PRICE INDEX FOR  
4 THE STATE FISCAL YEAR ENDING IN THE TAX YEAR PRIOR TO THE TAX  
5 YEAR FOR WHICH THE ADJUSTMENT IS BEING MADE AND THE DENOMINATOR  
6 OF WHICH IS THE UNITED STATES CONSUMER PRICE INDEX FOR THE  
7 1997-98 STATE FISCAL YEAR AND ROUNDING THE RESULTANT PRODUCT TO  
8 THE NEAREST \$100.00 INCREMENT.

9       (9) ~~(8)~~ As used in subsection (1)(f), "retirement or pen-  
10 sion benefits" means distributions from all of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9 Sec. 51. (1) For receiving, earning, or otherwise acquiring  
10 income from any source whatsoever, there is levied and imposed  
11 upon the taxable income of every person other than a corporation  
12 a tax at the following rates in the following circumstances:

13 (a) Before May 1, 1994, 4.6%.

14 (b) After April 30, 1994 AND BEFORE JANUARY 1, 1999, 4.4%.

15 (C) ON AND AFTER JANUARY 1, 1999, FOR TAXPAYERS WHO CLAIM  
16 THE PERSONAL EXEMPTION AMOUNTS ALLOWED UNDER SECTION 30(8),  
17 4.4%.

18 (D) FOR TAXPAYERS WHO CLAIM THE PERSONAL EXEMPTION AMOUNTS  
19 ALLOWED UNDER SECTION 30(2), THE FOLLOWING RATES APPLY:

20 (i) ON AND AFTER JANUARY 1, 1999 AND BEFORE JANUARY 1, 2000,  
21 4.3%.

22 (ii) ON AND AFTER JANUARY 1, 2000 AND BEFORE JANUARY 1,  
23 2001, 4.2%.

24 (iii) ON AND AFTER JANUARY 1, 2001 AND BEFORE JANUARY 1,  
25 2002, 4.1%.

26 (iv) ON AND AFTER JANUARY 1, 2002 AND BEFORE JANUARY 1,  
27 2003, 4.0%.

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1 (v) ON AND AFTER JANUARY 1, 2003 AND BEFORE JANUARY 1, 2004,  
2 3.9%.

3 (vi) ON AND AFTER JANUARY 1, 2004, 3.8%.

4 (2) The following percentages of the net revenues collected  
5 under this section shall be deposited in the state school aid  
6 fund created in section 11 of article IX of the state constitu-  
7 tion of 1963:

8 (a) Beginning October 1, 1994 and before October 1, 1996,  
9 14.4% of the gross collections before refunds from the tax levied  
10 under this section.

11 (b) After September 30, 1996, 23.0% of the gross collections  
12 before refunds from the tax levied under this section.

13 (3) The department shall annualize rates provided in subsec-  
14 tion (1) as necessary for tax years that end after April 30,  
15 1994. The applicable annualized rate shall be imposed upon the  
16 taxable income of every person other than a corporation for those  
17 tax years.

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

22 (5) A resident beneficiary of a trust whose taxable income  
23 includes all or part of an accumulation distribution by a trust,  
24 as defined in section 665 of the internal revenue code, shall be  
25 allowed a credit against the tax otherwise due under this act.  
26 The credit shall be all or a proportionate part of any tax paid  
27 by the trust under this act for any preceding taxable year that

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1 would not have been payable if the trust had in fact made  
2 distribution to its beneficiaries at the times and in the amounts  
3 specified in section 666 of the internal revenue code. The  
4 credit shall not reduce the tax otherwise due from the benefi-  
5 ciary to an amount less than would have been due if the accumula-  
6 tion distribution were excluded from taxable income.

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

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

19 (8) As used in this section:

20 (a) "Person other than a corporation" means a resident or  
21 nonresident individual or any of the following:

22 (i) A partner in a partnership as defined in the internal  
23 revenue code.

24 (ii) A beneficiary of an estate or a trust as defined in the  
25 internal revenue code.

26 (iii) An estate or trust as defined in the internal revenue  
27 code.

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1 (b) "Taxable income" means taxable income as defined in this  
2 act subject to the applicable source and attribution rules con-  
3 tained in this act.

4 Enacting section 1. Section 30d of the income tax act of  
5 1967, 1967 PA 281, MCL 206.30d, is repealed.

6 Enacting section 2. This amendatory act does not take  
7 effect unless House Joint Resolution BB of the 89th Legislature  
8 becomes a part of the state constitution of 1963 as provided in  
9 section 1 of article XII of the state constitution of 1963.