

# HOUSE BILL No. 5139

August 23, 2007, Introduced by Reps. Clack, Johnson, Melton, Clemente, Constan, Bieda, Hopgood, Sak, Kathleen Law, Accavitti, Polidori, Brown, Corriveau, Coulouris, Byrum, Angerer and Dean and referred to the Committee on Education.

A bill to amend 1967 PA 281, entitled  
"Income tax act of 1967,"  
by amending section 30 (MCL 206.30), as amended by 2005 PA 214.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

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

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

10       (b) Add taxes on or measured by income to the extent the

1 taxes have been deducted in arriving at adjusted gross income.

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

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

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

18 (f) Deduct the following to the extent included in adjusted  
19 gross income:

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

23 (ii) Retirement or pension benefits received from a public  
24 retirement system of or created by another state or any of its  
25 political subdivisions if the income tax laws of the other state  
26 permit a similar deduction or exemption or a reciprocal deduction  
27 or exemption of a retirement or pension benefit received from a

1 public retirement system of or created by this state or any of  
2 the political subdivisions of this state.

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

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

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

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

9 (v) After September 30, 1994, retirement or pension benefits  
10 not deductible under subparagraph (i) or subdivision (e) from any  
11 other retirement or pension system or benefits from a retirement  
12 annuity policy in which payments are made for life to a senior  
13 citizen, to a maximum of \$30,000.00 for a single return and  
14 \$60,000.00 for a joint return. The maximum amounts allowed under  
15 this subparagraph shall be reduced by the amount of the deduction  
16 for retirement or pension benefits claimed under subparagraph (i)  
17 or subdivision (e) and for tax years after the 1996 tax year by  
18 the amount of a deduction claimed under subdivision (r). For the  
19 1995 tax year and each tax year after 1995, the maximum amounts  
20 allowed under this subparagraph shall be adjusted by the  
21 percentage increase in the United States consumer price index for  
22 the immediately preceding calendar year. The department shall  
23 annualize the amounts provided in this subparagraph and  
24 subparagraph (iv) as necessary for tax years that end after  
25 September 30, 1994. As used in this subparagraph, "senior  
26 citizen" means that term as defined in section 514.

27 (vi) The amount determined to be the section 22 amount

1 eligible for the elderly and the permanently and totally disabled  
2 credit provided in section 22 of the internal revenue code.

3 (g) Adjustments resulting from the application of section  
4 271.

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

7 (i) Adjustments resulting from the allocation and  
8 apportionment provisions of chapter 3.

9 (j) Deduct political contributions as described in section 4  
10 of the Michigan campaign finance act, 1976 PA 388, MCL 169.204,  
11 or 2 USC 431, not in excess of \$50.00 per annum, or \$100.00 per  
12 annum for a joint return.

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

16 (l) Deduct the following payments made by the taxpayer in the  
17 tax year:

18 (i) The amount of payment made under an advance tuition  
19 payment contract as provided in the Michigan education trust act,  
20 1986 PA 316, MCL 390.1421 to 390.1442.

21 (ii) The amount of payment made under a contract with a  
22 private sector investment manager that meets all of the following  
23 criteria:

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

1 (B) The contract applies only for a state institution of  
2 higher education as defined in the Michigan education trust act,  
3 1986 PA 316, MCL 390.1421 to 390.1442, or a community or junior  
4 college in Michigan.

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

8 (D) The contract is entered into after either of the  
9 following:

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

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

18 (m) If an advance tuition payment contract under the  
19 Michigan education trust act, 1986 PA 316, MCL 390.1421 to  
20 390.1442, or another contract for which the payment was  
21 deductible under subdivision (l) is terminated and the qualified  
22 beneficiary under that contract does not attend a university,  
23 college, junior or community college, or other institution of  
24 higher education, add the amount of a refund received by the  
25 taxpayer as a result of that termination or the amount of the  
26 deduction taken under subdivision (l) for payment made under that  
27 contract, whichever is less.

1           (n) Deduct from the taxable income of a purchaser the amount  
2 included as income to the purchaser under the internal revenue  
3 code after the advance tuition payment contract entered into  
4 under the Michigan education trust act, 1986 PA 316, MCL 390.1421  
5 to 390.1442, is terminated because the qualified beneficiary  
6 attends an institution of postsecondary education other than  
7 either a state institution of higher education or an institution  
8 of postsecondary education located outside this state with which  
9 a state institution of higher education has reciprocity.

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

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

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

22          (r) After September 30, 1994 and before the 1997 tax year, a  
23 taxpayer who is a senior citizen may deduct, to the extent  
24 included in adjusted gross income, interest and dividends  
25 received in the tax year not to exceed \$1,000.00 for a single  
26 return or \$2,000.00 for a joint return. However, for tax years  
27 before the 1997 tax year, the deduction under this subdivision

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

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

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

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

1 141.501 to 141.787.

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

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

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

16 (v) For tax years that begin on and after January 1, 1994,  
17 deduct, to the extent included in adjusted gross income, any  
18 amount, and any interest earned on that amount, received in the  
19 tax year by a taxpayer who is a Holocaust victim as a result of a  
20 settlement of claims against any entity or individual for any  
21 recovered asset pursuant to the German act regulating unresolved  
22 property claims, also known as Gesetz zur Regelung offener  
23 Vermögensfragen, as a result of the settlement of the action  
24 entitled In re: Holocaust victim assets litigation, CV-96-4849,  
25 CV-96-5161, and CV-97-0461 (E.D. NY), or as a result of any  
26 similar action if the income and interest are not commingled in  
27 any way with and are kept separate from all other funds and



assets of the taxpayer. As used in this subdivision:

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

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

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

(i) ~~The total of all contributions~~ **CONTRIBUTIONS** made on and after October 1, 2000 by the taxpayer in the tax year less qualified withdrawals made in the tax year ~~to~~ **FROM** education savings accounts, **CALCULATED ON A PER EDUCATION SAVINGS ACCOUNT BASIS**, pursuant to the Michigan education savings program act, 2000 PA 161, MCL 390.1471 to 390.1486, not to exceed **A TOTAL DEDUCTION OF** \$5,000.00 for a single return or \$10,000.00 for a joint return per tax year. **THE AMOUNT CALCULATED UNDER THIS SUBPARAGRAPH FOR EACH EDUCATION SAVINGS ACCOUNT SHALL NOT BE LESS THAN ZERO.**

(ii) The amount under section 30f.

(x) For tax years that begin after December 31, 1999, add, to the extent not included in adjusted gross income, the amount

1 of money withdrawn by the taxpayer in the tax year from education  
2 savings accounts, not to exceed the total amount deducted under  
3 subdivision (w) in the tax year and all previous tax years, if  
4 the withdrawal was not a qualified withdrawal as provided in the  
5 Michigan education savings program act, 2000 PA 161, MCL 390.1471  
6 to 390.1486. This subdivision does not apply to withdrawals that  
7 are less than the sum of all contributions made to an education  
8 savings account in all previous tax years for which no deduction  
9 was claimed under subdivision (w), less any contributions for  
10 which no deduction was claimed under subdivision (w) that were  
11 withdrawn in all previous tax years.

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

19 (z) For tax years that begin after December 31, 2000,  
20 deduct, to the extent included in adjusted gross income, an  
21 amount equal to the qualified charitable distribution made in the  
22 tax year by a taxpayer to a charitable organization. The amount  
23 allowed under this subdivision shall be equal to the amount  
24 deductible by the taxpayer under section 170(c) of the internal  
25 revenue code with respect to the qualified charitable  
26 distribution in the tax year in which the taxpayer makes the  
27 distribution to the qualified charitable organization, reduced by

1 both the amount of the deduction for retirement or pension  
2 benefits claimed by the taxpayer under subdivision (f)(i), (ii),  
3 (iv), or (v) and by 2 times the total amount of credits claimed  
4 under sections 260 and 261 for the tax year. As used in this  
5 subdivision, "qualified charitable distribution" means a  
6 distribution of assets to a qualified charitable organization by  
7 a taxpayer not more than 60 days after the date on which the  
8 taxpayer received the assets as a distribution from a retirement  
9 or pension plan described in subsection (8)(a). A distribution is  
10 to a qualified charitable organization if the distribution is  
11 made in any of the following circumstances:

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

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

25 (A) The taxpayer who received the distribution from the  
26 retirement or pension plan.

27 (B) The spouse of an individual described in sub-

1 subparagraph (A).

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

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

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

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

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

19 (B) All interest and passive dividends.

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

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

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

27 (F) Capital gains from the sale or exchange of tangible

1 personal property located within the agreement area at the time  
2 of sale.

3 (G) Capital gains from the sale or exchange of intangible  
4 personal property.

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

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

12 (J) All gaming winnings.

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

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

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

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

22 (bb) For tax years that begin after December 31, 2006,  
23 deduct, to the extent included in adjusted gross income, all or a  
24 portion of the gain, as determined under this section, realized  
25 from an initial equity investment of not less than \$100,000.00  
26 made by the taxpayer before December 31, 2009, in a qualified  
27 business, if an amount equal to the sum of the taxpayer's basis

1 in the investment as determined under the internal revenue code  
2 plus the gain, or a portion of that amount, is reinvested in an  
3 equity investment in a qualified business within 1 year after the  
4 sale or disposition of the investment in the qualified business.

5 If the amount of the subsequent investment is less than the sum  
6 of the taxpayer's basis from the prior equity investment plus the  
7 gain from the prior equity investment, the amount of a deduction  
8 under this section shall be reduced by the difference between the  
9 sum of the taxpayer's basis from the prior equity investment plus  
10 the gain from the prior equity investment and the subsequent  
11 investment. As used in this subdivision:

12 (i) "Advanced automotive, manufacturing, and materials  
13 technology" means any technology that involves 1 or more of the  
14 following:

15 (A) Materials with engineered properties created through the  
16 development of specialized process and synthesis technology.

17 (B) Nanotechnology, including materials, devices, or systems  
18 at the atomic, molecular, or macromolecular level, with a scale  
19 measured in nanometers.

20 (C) Microelectromechanical systems, including devices or  
21 systems integrating microelectronics with mechanical parts and a  
22 scale measured in micrometers.

23 (D) Improvements to vehicle safety, vehicle performance,  
24 vehicle production, or environmental impact, including, but not  
25 limited to, vehicle equipment and component parts.

26 (E) Any technology that involves an alternative energy  
27 vehicle or its components. "Alternative energy vehicle" means

1 that term as defined in section 2 of the Michigan next energy  
2 authority act, 2002 PA 593, MCL 207.822.

3 (F) A new technology, device, or system that enhances or  
4 improves the manufacturing process of wood, timber, or  
5 agricultural-based products.

6 (G) Advanced computing or electronic device technology  
7 related to technology described under this subparagraph.

8 (H) Design, engineering, testing, or diagnostics related to  
9 technology described under this subparagraph.

10 (I) Product research and development related to technology  
11 described under this subparagraph.

12 (ii) "Advanced computing" means any technology used in the  
13 design and development of 1 or more of the following:

14 (A) Computer hardware and software.

15 (B) Data communications.

16 (C) Information technologies.

17 (iii) "Alternative energy technology" means applied research  
18 or commercialization of new or next generation technology in 1 or  
19 more of the following:

20 (A) Alternative energy technology as that term is defined in  
21 section 2 of the Michigan next energy authority act, 2002 PA 593,  
22 MCL 207.822.

23 (B) Devices or systems designed and used solely for the  
24 purpose of generating energy from agricultural crops, residue and  
25 waste generated from the production and processing of  
26 agricultural products, animal wastes, or food processing wastes,  
27 not including a conventional gasoline or diesel fuel engine or a

1 retrofitted conventional gasoline or diesel fuel engine.

2 (C) A new technology, product, or system that permits the  
3 utilization of biomass for the production of specialty,  
4 commodity, or foundational chemicals or of novel or economical  
5 commodity materials through the application of biotechnology that  
6 minimizes, complements, or replaces reliance on petroleum for the  
7 production.

8 (D) Advanced computing or electronic device technology  
9 related to technology described under this subparagraph.

10 (E) Design, engineering, testing, or diagnostics related to  
11 technology described under this subparagraph.

12 (F) Product research and development related to a technology  
13 described under this subparagraph.

14 (iv) "Competitive edge technology" means 1 or more of the  
15 following:

16 (A) Advanced automotive, manufacturing, and materials  
17 technology.

18 (B) Alternative energy technology.

19 (C) Homeland security and defense technology.

20 (D) Life sciences technology.

21 (v) "Electronic device technology" means any technology that  
22 involves microelectronics, semiconductors, electronic equipment,  
23 and instrumentation, radio frequency, microwave, and millimeter  
24 electronics; optical and optic-electrical devices; or data and  
25 digital communications and imaging devices.

26 (vi) "Homeland security and defense technology" means  
27 technology that assists in the assessment of threats or damage to



1 the general population and critical infrastructure, protection  
2 of, defense against, or mitigation of the effects of foreign or  
3 domestic threats, disasters, or attacks, or support for crisis or  
4 response management, including, but not limited to, 1 or more of  
5 the following:

6 (A) Sensors, systems, processes, or equipment for  
7 communications, identification and authentication, screening,  
8 surveillance, tracking, and data analysis.

9 (B) Advanced computing or electronic device technology  
10 related to technology described under this subparagraph.

11 (C) Aviation technology including, but not limited to,  
12 avionics, airframe design, sensors, early warning systems, and  
13 services related to the technology described in this  
14 subparagraph.

15 (D) Design, engineering, testing, or diagnostics related to  
16 technology described under this subparagraph.

17 (E) Product research and development related to technology  
18 described under this subparagraph.

19 (vii) "Life sciences technology" means any technology derived  
20 from life sciences intended to improve human health or the  
21 overall quality of human life, including, but not limited to,  
22 systems, processes, or equipment for drug or gene therapies,  
23 biosensors, testing, medical devices or instrumentation with a  
24 therapeutic or diagnostic value, a pharmaceutical or other  
25 product that requires United States food and drug administration  
26 approval or registration prior to its introduction in the  
27 marketplace and is a drug or medical device as defined by the

1 federal food, drug, and cosmetic act, 21 USC 301 to 399, or 1 or  
2 more of the following:

3 (A) Advanced computing or electronic device technology  
4 related to technology described under this subparagraph.

5 (B) Design, engineering, testing, or diagnostics related to  
6 technology or the commercial manufacturing of technology  
7 described under this subparagraph.

8 (C) Product research and development related to technology  
9 described under this subparagraph.

10 (viii) "Life sciences" means science for the examination or  
11 understanding of life or life processes, including, but not  
12 limited to, all of the following:

13 (A) Bioengineering.

14 (B) Biomedical engineering.

15 (C) Genomics.

16 (D) Proteomics.

17 (E) Molecular and chemical ecology.

18 (F) Biotechnology, including any technology that uses living  
19 organisms, cells, macromolecules, microorganisms, or substances  
20 from living organisms to make or modify a product for useful  
21 purposes. Biotechnology or life sciences do not include any of  
22 the following:

23 (I) Activities prohibited under section 2685 of the public  
24 health code, 1978 PA 368, MCL 333.2685.

25 (II) Activities prohibited under section 2688 of the public  
26 health code, 1978 PA 368, MCL 333.2688.

27 (III) Activities prohibited under section 2690 of the public

1 health code, 1978 PA 368, MCL 333.2690.

2 (IV) Activities prohibited under section 16274 of the public  
3 health code, 1978 PA 368, MCL 333.16274.

4 (V) Stem cell research with human embryonic tissue.

5 (ix) "Qualified business" means a business that complies with  
6 all of the following:

7 (A) The business is a seed or early stage business as  
8 defined in section 3 of the Michigan early stage venture  
9 investment act of 2003, 2003 PA 296, MCL 125.2233.

10 (B) The business has its headquarters in this state, is  
11 domiciled in this state, or has a majority of its employees  
12 working a majority of their time in this state.

13 (C) The business has a preinvestment valuation of less than  
14 \$10,000,000.00.

15 (D) The business has been in existence less than 5 years.  
16 This sub-subparagraph does not apply to a business, the business  
17 activity of which is derived from research at an institution of  
18 higher education located within this state or an organization  
19 exempt from federal taxation under section 501c(3) of the  
20 internal revenue code and that is located within this state.

21 (E) The business is engaged only in competitive edge  
22 technology.

23 (F) The business is certified by the Michigan strategic fund  
24 as meeting the requirements of sub-subparagraphs (A) to (E) at  
25 the time of each proposed investment.

26 (2) The following personal exemptions multiplied by the  
27 number of personal or dependency exemptions allowable on the

1 taxpayer's federal income tax return pursuant to the internal  
 2 revenue code shall be subtracted in the calculation that  
 3 determines taxable income:

4	(a) For a tax year beginning during 1987 ...	\$ 1,600.00.
5	(b) For a tax year beginning during 1988 ...	\$ 1,800.00.
6	(c) For a tax year beginning during 1989 ...	\$ 2,000.00.
7	(d) For a tax year beginning after 1989	
8	and before 1995 .....	\$ 2,100.00.
9	(e) For a tax year beginning during 1995	
10	or 1996 .....	\$ 2,400.00.
11	(f) Except as otherwise provided in	
12	subsection (7), for a tax year beginning after	
13	1996 .....	\$ 2,500.00.

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

17 (a) For tax years beginning after 1989 and before 2000,  
 18 \$900.00 in each of the following circumstances:

19 (i) The taxpayer is a paraplegic, a quadriplegic, a  
 20 hemiplegic, a person who is blind as defined in section 504, or a  
 21 person who is totally and permanently disabled as defined in  
 22 section 522.

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

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

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

1 (b) For tax years beginning after 1999, \$1,800.00 for each  
2 taxpayer and every dependent of the taxpayer who is 65 years of  
3 age or older. When a dependent of a taxpayer files an annual  
4 return under this act, the taxpayer or dependent of the taxpayer,  
5 but not both, may claim the additional exemption allowed under  
6 this subdivision. As used in this subdivision and subdivision

7 (c), "dependent" means that term as defined in section 30e.

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

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

21 (4) For a tax year beginning after 1987, an individual with  
22 respect to whom a deduction under section 151 of the internal  
23 revenue code is allowable to another federal taxpayer during the  
24 tax year is not considered to have an allowable federal exemption  
25 for purposes of subsection (2), but may subtract \$500.00 in the  
26 calculation that determines taxable income for a tax year  
27 beginning in 1988, \$1,000.00 for a tax year beginning after 1988

1 and before 2000, and \$1,500.00 for a tax year beginning after  
2 1999.

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  
9 taxable 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, 1972 PA 239, MCL  
12 432.1 to 432.47.

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

1 under subsection (3) shall be adjusted by multiplying the  
2 exemption amount under subsection (3) for the tax year beginning  
3 in 2000 by a fraction, the numerator of which is the United  
4 States consumer price index for the state fiscal year ending the  
5 tax year prior to the tax year for which the adjustment is being  
6 made and the denominator of which is the United States consumer  
7 price index for the 1998-1999 state fiscal year. The resultant  
8 product shall be rounded to the nearest \$100.00 increment.

9 (8) As used in subsection (1)(f), "retirement or pension  
10 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  
17 section 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)(A)(iv) of the internal revenue code.

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

25 (iv) Distributions from a 401(k) plan attributable to  
26 employee contributions mandated by the plan or attributable to  
27 employer contributions.

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

3 (i) Plans of the United States, state governments other than  
4 this state, and political subdivisions, agencies, or  
5 instrumentalities of this state.

6 (ii) Plans maintained by a church or a convention or  
7 association of churches.

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

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

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

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

20 (A) Deferred compensation plans under section 457 of the  
21 internal revenue code.

22 (B) Distributions from plans under section 401(k) of the  
23 internal revenue code other than plans described in subdivision

24 (a) (iv) .

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

27 (a) (iii) .



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

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