

HOUSE SUBSTITUTE FOR  
SENATE BILL NO. 748

A bill to amend 1967 PA 281, entitled  
"Income tax act of 1967,"  
by amending sections 8, 12, 30, 30a, 52, 512, and 607 (MCL 206.8,  
206.12, 206.30, 206.30a, 206.52, 206.512, and 206.607), section 12  
as amended by 2003 PA 45, section 30 as amended by 2017 PA 149,  
section 30a as added by 2012 PA 224, sections 52 and 512 as amended  
by 2011 PA 38, and section 607 as amended by 2011 PA 306; and to  
repeal acts and parts of acts.

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

1       Sec. 8. (1) "Department" means the revenue division of the  
2       department of treasury.

3       (2) "DEPENDENT" MEANS A DEPENDENT AS DEFINED IN SECTION 152 OF  
4       THE INTERNAL REVENUE CODE.

5       (3) ~~(2)~~ "Employee" means an employee as defined in section

1 3401(c) of the internal revenue code. Any person from whom an  
 2 employer is required to withhold for federal income tax purposes  
 3 shall prima facie be deemed an employee.

4 (4) ~~(3)~~ "Employer" means an employer as defined in section  
 5 3401(d) of the internal revenue code. Any person required to  
 6 withhold for federal income tax purposes shall prima facie be  
 7 deemed an employer.

8 Sec. 12. (1) "Flow-through entity" means an S corporation,  
 9 partnership, limited partnership, limited liability partnership, or  
 10 limited liability company. Flow-through entity does not include a  
 11 publicly traded partnership as that term is defined in section 7704  
 12 of the internal revenue code that has equity securities registered  
 13 with the securities and exchange commission under section 12 of  
 14 title I of the securities exchange act of 1934, ~~chapter 404, 48~~  
 15 ~~Stat. 881, 15 U.S.C. USC 78/~~.

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

18 (3) "Internal revenue code" means the United States internal  
 19 revenue code of 1986 in effect on January 1, ~~1996~~ 2018 or at the  
 20 option of the taxpayer, in effect for the tax year.

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

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

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

27 (b) A nonresident estate or trust.

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

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

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

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

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

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

25 (e) Deduct, to the extent included in adjusted gross income,  
26 the following:

27 (i) Compensation, including retirement or pension benefits,

1 received for services in the ~~armed forces~~ **ARMED FORCES** of the  
2 United States.

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

5 (iii) Beginning January 1, 2012, retirement or pension  
6 benefits received for services in the Michigan National Guard.

7 (f) Deduct the following to the extent included in adjusted  
8 gross income subject to the limitations and restrictions set forth  
9 in subsection (9):

10 (i) Retirement or pension benefits received from a federal  
11 public retirement system or from a public retirement system of or  
12 created by this state or a political subdivision of this state.

13 (ii) Retirement or pension benefits received from a public  
14 retirement system of or created by another state or any of its  
15 political subdivisions if the income tax laws of the other state  
16 permit a similar deduction or exemption or a reciprocal deduction  
17 or exemption of a retirement or pension benefit received from a  
18 public retirement system of or created by this state or any of the  
19 political subdivisions of this state.

20 (iii) Social ~~security~~ **SECURITY** benefits as defined in section  
21 86 of the internal revenue code.

22 (iv) Beginning on and after January 1, 2007, retirement or  
23 pension benefits not deductible under subparagraph (i) or  
24 subdivision (e) from any other retirement or pension system or  
25 benefits from a retirement annuity policy in which payments are  
26 made for life to a senior citizen, to a maximum of \$42,240.00 for a  
27 single return and \$84,480.00 for a joint return. The maximum

1 amounts allowed under this subparagraph shall be reduced by the  
2 amount of the deduction for retirement or pension benefits claimed  
3 under subparagraph (i) or subdivision (e) and by the amount of a  
4 deduction claimed under subdivision (p). For the 2008 tax year and  
5 each tax year after 2008, the maximum amounts allowed under this  
6 subparagraph shall be adjusted by the percentage increase in the  
7 United States ~~consumer price index~~ **CONSUMER PRICE INDEX** for the  
8 immediately preceding calendar year. The department shall annualize  
9 the amounts provided in this subparagraph as necessary. As used in  
10 this subparagraph, "senior citizen" means that term as defined in  
11 section 514.

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

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

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

18 (i) Adjustments resulting from the allocation and  
19 apportionment provisions of chapter 3.

20 (j) Deduct the following payments made by the taxpayer in the  
21 tax year:

22 (i) For the 2010 tax year and each tax year after 2010, the  
23 amount of a charitable contribution made to the advance tuition  
24 payment fund created under section 9 of the Michigan education  
25 trust act, 1986 PA 316, MCL 390.1429.

26 (ii) The amount of payment made under an advance tuition  
27 payment contract as provided in the Michigan education trust act,

1 1986 PA 316, MCL 390.1421 to 390.1442.

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

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

9 (B) The contract applies only for a state institution of  
10 higher education as defined in the Michigan education trust act,  
11 1986 PA 316, MCL 390.1421 to 390.1442, or a community or junior  
12 college in Michigan.

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

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

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

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

26 (k) If an advance tuition payment contract under the Michigan  
27 education trust act, 1986 PA 316, MCL 390.1421 to 390.1442, or

1 another contract for which the payment was deductible under  
2 subdivision (j) is terminated and the qualified beneficiary under  
3 that contract does not attend a university, college, junior or  
4 community college, or other institution of higher education, add  
5 the amount of a refund received by the taxpayer as a result of that  
6 termination or the amount of the deduction taken under subdivision  
7 (j) for payment made under that contract, whichever is less.

8 (l) Deduct from the taxable income of a purchaser the amount  
9 included as income to the purchaser under the internal revenue code  
10 after the advance tuition payment contract entered into under the  
11 Michigan education trust act, 1986 PA 316, MCL 390.1421 to  
12 390.1442, is terminated because the qualified beneficiary attends  
13 an institution of postsecondary education other than either a state  
14 institution of higher education or an institution of postsecondary  
15 education located outside this state with which a state institution  
16 of higher education has reciprocity.

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

20 (n) Deduct a net operating loss deduction for the taxable year  
21 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  
24 apportionment provisions of chapter 3 of this part for the taxable  
25 year in which the loss was incurred.

26 (o) Deduct, to the extent included in adjusted gross income,  
27 benefits from a discriminatory self-insurance medical expense

1 reimbursement plan.

2 (p) Beginning on and after January 1, 2007, subject to any  
3 limitation provided in this subdivision, a taxpayer who is a senior  
4 citizen may deduct to the extent included in adjusted gross income,  
5 interest, dividends, and capital gains received in the tax year not  
6 to exceed \$9,420.00 for a single return and \$18,840.00 for a joint  
7 return. The maximum amounts allowed under this subdivision shall be  
8 reduced by the amount of a deduction claimed for retirement or  
9 pension benefits under subdivision (e) or a deduction claimed under  
10 subdivision (f) (i), (ii), (iv), or (v). For the 2008 tax year and  
11 each tax year after 2008, the maximum amounts allowed under this  
12 subdivision shall be adjusted by the percentage increase in the  
13 United States ~~consumer price index~~ **CONSUMER PRICE INDEX** for the  
14 immediately preceding calendar year. The department shall annualize  
15 the amounts provided in this subdivision as necessary. Beginning  
16 January 1, 2012, the deduction under this subdivision is not  
17 available to a senior citizen born after 1945. As used in this  
18 subdivision, "senior citizen" means that term as defined in section  
19 514.

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

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

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

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



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

1 deposits, insurance proceeds, or artwork owned by a Holocaust  
2 victim during the period from 1920 to 1945, withheld from that  
3 Holocaust victim from and after 1945, and not recovered, returned,  
4 or otherwise compensated to the Holocaust victim until after 1993.

5 (t) Deduct ~~, to the extent not deducted in determining~~  
6 ~~adjusted gross income, both~~ **ALL** of the following:

7 (i) ~~Contributions TO THE EXTENT NOT DEDUCTED IN DETERMINING~~  
8 **ADJUSTED GROSS INCOME, CONTRIBUTIONS** made by the taxpayer in the  
9 tax year less qualified withdrawals made in the tax year from  
10 education savings accounts, calculated on a per education savings  
11 account basis, pursuant to the Michigan education savings program  
12 act, 2000 PA 161, MCL 390.1471 to 390.1486, not to exceed a total  
13 deduction of \$5,000.00 for a single return or \$10,000.00 for a  
14 joint return per tax year. The amount calculated under this  
15 subparagraph for each education savings account shall not be less  
16 than zero.

17 (ii) ~~The amount under section 30f.~~ **TO THE EXTENT INCLUDED IN**  
18 **ADJUSTED GROSS INCOME, INTEREST EARNED IN THE TAX YEAR ON THE**  
19 **CONTRIBUTIONS TO THE TAXPAYER'S EDUCATION SAVINGS ACCOUNTS IF THE**  
20 **CONTRIBUTIONS WERE DEDUCTIBLE UNDER SUBPARAGRAPH (i) .**

21 (iii) **TO THE EXTENT INCLUDED IN ADJUSTED GROSS INCOME,**  
22 **DISTRIBUTIONS THAT ARE QUALIFIED WITHDRAWALS FROM AN EDUCATION**  
23 **SAVINGS ACCOUNT TO THE DESIGNATED BENEFICIARY OF THAT EDUCATION**  
24 **SAVINGS ACCOUNT.**

25 (u) Add, to the extent not included in adjusted gross income,  
26 the amount of money withdrawn by the taxpayer in the tax year from  
27 education savings accounts, not to exceed the total amount deducted

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

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

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

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

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

23 (B) All interest and passive dividends.

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

26 (D) All rents and royalties derived from tangible personal  
27 property, to the extent the personal property is utilized within

1 the agreement area.

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

4 (F) Capital gains from the sale or exchange of tangible  
5 personal property located within the agreement area at the time of  
6 sale.

7 (G) Capital gains from the sale or exchange of intangible  
8 personal property.

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

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

15 (J) All gaming winnings.

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

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

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

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

25 (w) For tax years beginning after December 31, 2011, eliminate  
26 all of the following:

27 (i) Income from producing oil and gas to the extent included

1 in adjusted gross income.

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

4 (x) For tax years that begin after December 31, 2015, deduct ~~7~~  
5 ~~to the extent not deducted in determining adjusted gross income,~~  
6 all of the following:

7 (i) ~~Contributions~~ **TO THE EXTENT NOT DEDUCTED IN DETERMINING**  
8 **ADJUSTED GROSS INCOME, CONTRIBUTIONS** made by the taxpayer in the  
9 tax year less qualified withdrawals made in the tax year from an  
10 ABLE savings account, pursuant to the Michigan ABLE program act,  
11 2015 PA 160, MCL 206.981 to 206.997, not to exceed a total  
12 deduction of \$5,000.00 for a single return or \$10,000.00 for a  
13 joint return per tax year. The amount calculated under this  
14 subparagraph for an ABLE savings account shall not be less than  
15 zero.

16 (ii) ~~Interest~~ **TO THE EXTENT INCLUDED IN ADJUSTED GROSS INCOME,**  
17 **INTEREST** earned in the tax year on the contributions to the  
18 taxpayer's ABLE savings account if the contributions were  
19 deductible under subparagraph (i).

20 (iii) ~~Distributions~~ **TO THE EXTENT INCLUDED IN ADJUSTED GROSS**  
21 **INCOME, DISTRIBUTIONS** that are qualified withdrawals from an ABLE  
22 savings account to the designated beneficiary of that ABLE savings  
23 account.

24 (y) Add, to the extent not included in adjusted gross income,  
25 the amount of money withdrawn by the taxpayer in the tax year from  
26 an ABLE savings account, not to exceed the total amount deducted  
27 under subdivision (x) in the tax year and all previous tax years,

1 if the withdrawal was not a qualified withdrawal as provided in the  
2 Michigan ABLE program act, 2015 PA 160, MCL 206.981 to 206.997.

3 This subdivision does not apply to withdrawals that are less than  
4 the sum of all contributions made to an ABLE savings account in all  
5 previous tax years for which no deduction was claimed under  
6 subdivision (x), less any contributions for which no deduction was  
7 claimed under subdivision (x) that were withdrawn in all previous  
8 tax years.

9 (2) Except as otherwise provided in subsection (7) **AND SECTION**  
10 **30A**, a personal exemption of \$3,700.00 multiplied by the number of  
11 personal ~~or AND~~ dependency exemptions ~~allowable on the taxpayer's~~  
12 ~~federal income tax return pursuant to the internal revenue code~~  
13 shall be subtracted in the calculation that determines taxable  
14 income. **THE NUMBER OF PERSONAL AND DEPENDENCY EXEMPTIONS ALLOWED**  
15 **SHALL BE DETERMINED AS FOLLOWS:**

16 (A) **EACH TAXPAYER MAY CLAIM 1 PERSONAL EXEMPTION. HOWEVER, IF**  
17 **A JOINT RETURN IS NOT MADE BY THE TAXPAYER AND HIS OR HER SPOUSE,**  
18 **THE TAXPAYER MAY CLAIM A PERSONAL EXEMPTION FOR THE SPOUSE IF THE**  
19 **SPOUSE, FOR THE CALENDAR YEAR IN WHICH THE TAXABLE YEAR OF THE**  
20 **TAXPAYER BEGINS, DOES NOT HAVE ANY GROSS INCOME AND IS NOT THE**  
21 **DEPENDENT OF ANOTHER TAXPAYER.**

22 (B) **A TAXPAYER MAY CLAIM A DEPENDENCY EXEMPTION FOR EACH**  
23 **INDIVIDUAL WHO IS A DEPENDENT OF THE TAXPAYER FOR THE TAX YEAR.**

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

1 (a) \$1,800.00 for each taxpayer and every dependent of the  
2 taxpayer who is a deaf person as defined in section 2 of the deaf  
3 persons' interpreters act, 1982 PA 204, MCL 393.502; a paraplegic,  
4 a quadriplegic, or a hemiplegic; a person who is blind as defined  
5 in section 504; or a person who is totally and permanently disabled  
6 as defined in section 522. When a dependent of a taxpayer files an  
7 annual return under this part, the taxpayer or dependent of the  
8 taxpayer, but not both, may claim the additional exemption allowed  
9 under this subdivision. ~~As used in this subdivision, "dependent"~~  
10 ~~means that term as defined in section 30e.~~

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

17 (i) "Qualified disabled veteran" means a veteran with a  
18 service-connected disability.

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

22 (iii) "Veteran" means a person who served in the active  
23 military, naval, marine, coast guard, or air service and who was  
24 discharged or released from his or her service with an honorable or  
25 general discharge.

26 (4) An individual with respect to whom a deduction under  
27 ~~section 151 of the internal revenue code~~ **SUBSECTION (2)** is

1 allowable to another ~~federal~~ taxpayer during the tax year is not  
2 ~~considered to have an allowable federal~~ **ENTITLED TO AN** exemption  
3 for purposes of subsection (2), but may subtract \$1,500.00 in the  
4 calculation that determines taxable income for a tax year.

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

10 (6) In calculating taxable income, a taxpayer shall not  
11 subtract from adjusted gross income the amount of prizes won by the  
12 taxpayer under the McCauley-Traxler-Law-Bowman-McNeely lottery act,  
13 1972 PA 239, MCL 432.1 to 432.47.

14 (7) For each tax year beginning on and after January 1, 2013,  
15 the personal exemption allowed under subsection (2) shall be  
16 adjusted by multiplying the exemption for the tax year beginning in  
17 2012 by a fraction, the numerator of which is the United States  
18 ~~consumer price index~~ **CONSUMER PRICE INDEX** for the state fiscal year  
19 ending in the tax year prior to the tax year for which the  
20 adjustment is being made and the denominator of which is the United  
21 States ~~consumer price index~~ **CONSUMER PRICE INDEX** for the 2010-2011  
22 state fiscal year. **FOR THE 2022 TAX YEAR AND EACH TAX YEAR AFTER**  
23 **2022, THE ADJUSTED AMOUNT DETERMINED UNDER THIS SUBSECTION SHALL BE**  
24 **INCREASED BY AN ADDITIONAL \$600.00.** The resultant product shall be  
25 rounded to the nearest \$100.00 increment. As used in this section,  
26 "United States ~~consumer price index~~ **CONSUMER PRICE INDEX**" means  
27 the United States ~~consumer price index~~ **CONSUMER PRICE INDEX** for all



1 urban consumers as defined and reported by the United States  
2 Department of Labor, Bureau of Labor Statistics. For each tax year,  
3 the exemptions allowed under subsection (3) shall be adjusted by  
4 multiplying the exemption amount under subsection (3) for the tax  
5 year by a fraction, the numerator of which is the United States  
6 ~~consumer price index~~ **CONSUMER PRICE INDEX** for the state fiscal year  
7 ending the tax year prior to the tax year for which the adjustment  
8 is being made and the denominator of which is the United States  
9 ~~consumer price index~~ **CONSUMER PRICE INDEX** for the 1998-1999 state  
10 fiscal year. The resultant product shall be rounded to the nearest  
11 \$100.00 increment.

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

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

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

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

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

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

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

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

9           (ii) Plans maintained by a church or a convention or  
10 association of churches.

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

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

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

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

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

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

27           (a) (iv) .

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

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

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

9 (9) In determining taxable income under this section, the  
10 following limitations and restrictions apply:

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

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

26 (c) Beginning January 1, 2013 for a person born in 1946  
27 through 1952 and beginning January 1, 2018 for a person born after

1 1945 who has retired as of January 1, 2013, if that person receives  
2 retirement or pension benefits from employment with a governmental  
3 agency that was not covered by the federal social security act,  
4 chapter 531, 49 Stat 620, the sum of the deductions under  
5 subsection (1)(f)(i), (ii), and (iv) is limited to \$35,000.00 for a  
6 single return and, except as otherwise provided under this  
7 subdivision, \$55,000.00 for a joint return. If both spouses filing  
8 a joint return receive retirement or pension benefits from  
9 employment with a governmental agency that was not covered by the  
10 federal social security act, chapter 531, 49 Stat 620, the sum of  
11 the deductions under subsection (1)(f)(i), (ii), and (iv) is  
12 limited to \$70,000.00 for a joint return. After that person reaches  
13 the age of 67, the deductions under subsection (1)(f)(i), (ii), and  
14 (iv) do not apply and that person is eligible for a deduction of  
15 \$35,000.00 for a single return and \$55,000.00 for a joint return,  
16 or \$70,000.00 for a joint return if applicable, which deduction is  
17 available against all types of income and is not restricted to  
18 income from retirement or pension benefits. A person who takes the  
19 deduction under subsection (1)(e) is not eligible for the  
20 unrestricted deduction of \$35,000.00 for a single return and  
21 \$55,000.00 for a joint return, or \$70,000.00 for a joint return if  
22 applicable, under this subdivision.

23 (d) Except as otherwise provided under subdivision (c) for a  
24 person who was retired as of January 1, 2013, for a person born  
25 after 1952 who has reached the age of 62 through 66 years of age  
26 and who receives retirement or pension benefits from employment  
27 with a governmental agency that was not covered by the federal

1 social security act, chapter 532, 49 Stat 620, the sum of the  
2 deductions under subsection (1)(f)(i), (ii), and (iv) is limited to  
3 \$15,000.00 for a single return and, except as otherwise provided  
4 under this subdivision, \$15,000.00 for a joint return. If both  
5 spouses filing a joint return receive retirement or pension  
6 benefits from employment with a governmental agency that was not  
7 covered by the federal social security act, chapter 532, 49 Stat  
8 620, the sum of the deductions under subsection (1)(f)(i), (ii),  
9 and (iv) is limited to \$30,000.00 for a joint return.

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

(f) For a joint return, the limitations and restrictions in this subsection shall be applied based on the age of the older spouse filing the joint return.

(10) As used in this section, "oil and gas" means oil and gas subject to severance tax under 1929 PA 48, MCL 205.301 to 205.317.

Sec. 30a. Notwithstanding any other provision of this part, for the 2012 tax year and each tax year after 2012 **THROUGH THE 2021 TAX YEAR**, taxable income for purposes of this part means taxable income as determined under section 30 with the following adjustment. For the 2012 tax year and each tax year after 2012 **THROUGH THE 2021 TAX YEAR**, to determine taxable income, a taxpayer shall claim a personal exemption deduction equal to the amount calculated pursuant to section 30(2) or equal to the following amounts multiplied by the number of personal ~~ex~~**AND** dependency exemptions allowable ~~on the taxpayer's federal income tax return pursuant to the internal revenue code,~~ **UNDER SECTION 30(2)**, whichever calculation is greater:

(a) Beginning on and after October 1, 2012 and before January 1, 2014, \$3,950.00. The department shall annualize the personal exemption deduction for the 2012 tax year, rounded to the nearest \$1.00.

(b) Beginning on and after January 1, 2014 and ~~each year after 2014,~~ **BEFORE JANUARY 1, 2018**, \$4,000.00.

**(C) FOR THE 2018 TAX YEAR, \$4,050.00.**

**(D) FOR THE 2019 TAX YEAR, \$4,400.00.**

**(E) FOR THE 2020 TAX YEAR, \$4,750.00.**

**(F) FOR THE 2021 TAX YEAR, \$4,900.00.**

1       Sec. 52. ~~For tax years beginning after 1986, a~~ A person with  
 2   respect to whom a deduction ~~under section 151 of the internal~~  
 3   ~~revenue code~~ is allowable to another federal taxpayer during the  
 4   tax year is not considered to have an allowable ~~federal~~ exemption  
 5   for purposes of section 30(2) and, notwithstanding sections 51 and  
 6   315, if that person has an adjusted gross income for that tax year  
 7   of \$1,500.00 or less, is exempt from the tax levied and imposed in  
 8   section 51 and is not required to file a return under this part.

9       Sec. 512. (1) "Paraplegic, hemiplegic, or quadriplegic" means  
 10   an individual, or either 1 of 2 persons filing a joint tax return  
 11   under this part, who is a paraplegic, hemiplegic, or quadriplegic  
 12   at the end of the tax year.

13   ~~—— (2) "Property taxes" means, for tax years before the 2003 tax~~  
 14   ~~year, general ad valorem taxes due and payable, levied on a~~  
 15   ~~homestead within this state including property tax administration~~  
 16   ~~fees, but does not include penalties, interest, or special~~  
 17   ~~assessments unless assessed in the entire city, village, or~~  
 18   ~~township, levied using a uniform millage rate on all real property~~  
 19   ~~not exempt by state law from the levy of the special assessment,~~  
 20   ~~and levied and based on state equalized valuation or taxable value.~~

21   ~~—— (3) "Qualified person" means a claimant and any person,~~  
 22   ~~domiciled in Michigan, who can be claimed as a dependent under the~~  
 23   ~~internal revenue code and who does not file a claim under this part~~  
 24   ~~for the same tax year. The term does not include the additional~~  
 25   ~~exemptions allowed for age or blindness.~~

26       (2) ~~(4)~~ "Renter" means a person who rents or leases a  
 27   homestead.

1       Sec. 607. (1) "Federal taxable income" means taxable income as  
2 defined in section 63 of the internal revenue code, except that  
3 federal taxable income shall be calculated as if section 168(k) and  
4 section 199 of the internal revenue code were not in effect.

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 under  
12 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 861(c)(1)(B) 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,



1 or advantage to the taxpayer or to others except for the following:

2 (a) Proceeds from sales by a principal that the taxpayer  
3 collects in an agency capacity solely on behalf of the principal  
4 and delivers to the principal.

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

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

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

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

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

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

27 (vi) Fees, taxes, assessments, levies, fines, penalties, or

1 other payments established by law that are paid to a governmental  
2 entity and that are the legal obligation of the principal.

3 (c) Amounts that are excluded from gross income of a foreign  
4 corporation engaged in the international operation of aircraft  
5 under section 883(a) of the internal revenue code.

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

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

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

20 (g) Proceeds from any of the following:

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

22 (ii) The original issue of debt instruments.

23 (h) Refunds from returned merchandise.

24 (i) Cash and in-kind discounts.

25 (j) Trade discounts.

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

27 (l) Security deposits.

(m) Payment of the principal portion of loans.

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

(o) Proceeds from a sale, transaction, exchange, involuntary conversion, or other disposition of tangible, intangible, or real property that is a capital asset as defined in section 1221(a) of the internal revenue code or land that qualifies as property used in the trade or business as defined in section 1231(b) of the internal revenue code, less any gain from the disposition to the extent that gain is included in federal taxable income.

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

(5) "Insurance company" means an authorized insurer as defined in section 108 of the insurance code of 1956, 1956 PA 218, MCL 500.108. **INSURANCE COMPANY DOES NOT INCLUDE A HEALTH MAINTENANCE ORGANIZATION AUTHORIZED UNDER CHAPTER 35 OF THE INSURANCE CODE OF 1956, 1956 PA 218, MCL 500.3501 TO 500.3573.**

(6) "Internal revenue code" means the United States internal revenue code of 1986 in effect on January 1, ~~2012~~ 2018 or, at the option of the taxpayer, in effect for the tax year.

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

Enacting section 1. Sections 30e and 30f of the income tax act of 1967, 1967 PA 281, MCL 206.30e and 206.30f, are repealed.