SENATE BILL No. 824

April 27, 1988, Introduced by Senators EHLERS, SHINKLE, ARTHURHULTZ, CARL, DINGELL, J. HART, SCHWARZ, BINSFELD, CRUCE, DILLINGHAM, POSTHUMUS, GEAKE, ENGLER, GAST, DE GROW, NICHOLS, FREDRICKS, SMITH, WELBORN, CROPSEY, GEO. HART, BARCIA, MACK, IRWIN, FAXON, KELLY, MILLER, DI NELLO and O'BRIEN and referred to the Committee on Finance.

A bill to amend sections 30 and 52 of Act No. 281 of the Public Acts of 1967, entitled

"Income tax act of 1967,"

section 30 as amended by Act No. 254 of the Public Acts of 1987 and section 52 as added by Act No. 1 of the Public Acts of 1988, being sections 206.30 and 206.52 of the Michigan Compiled Laws.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Section 1. Sections 30 and 52 of Act No. 281 of the Public Acts of 1967, section 30 as amended by Act No. 254 of the Public Acts of 1987 and section 52 as added by Act No. 1 of the Public Acts of 1988, being sections 206.30 and 206.52 of the Michigan Compiled Laws, are amended to read as follows:

Sec. 30. (1) "Taxable income", ~~in the case of~~ FOR a person other than a corporation, estate, or trust, means adjusted gross income as defined in the internal revenue code subject to the following adjustments:

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

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

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

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

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

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

(*i*) Retirement or pension benefits received from a public retirement system of or created by ~~an act of~~ this state or a political subdivision of this state.

(*ii*) Any retirement or pension benefits received from a public retirement system of or created by another state or any of its political subdivisions if the income tax laws of the other state permit a similar deduction or exemption or a reciprocal deduction or exemption of a retirement or pension benefit received from a public retirement system of or created by this state or any of the political subdivisions of this state.

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

(*iv*) Retirement or pension benefits from any other retirement or pension system as follows:

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

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

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

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

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

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

(j) Deduct political contributions as defined in section 4 of Act No. 388 of the Public Acts of 1976, being section 169.204 of the Michigan Compiled Laws, or section 301 of title III of the federal election campaign act of 1971, Public Law 92-225, 2 U.S.C. 431, not in excess of $50.00 per annum, or $100.00 per annum ~~in the case of~~ FOR a joint return.

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

~~(ℓ) Deduct, to the extent included in adjusted gross income, unemployment compensation benefits received from an employer which were in addition to unemployment compensation benefits received pursuant to the Michigan employment security act, Act No. 1 of the Public Acts of the Extra Session of 1936, as amended, being sections 421.1 to 421.73 of the Michigan Compiled Laws, and which have been repaid to the employer during the 1980 tax year due to the receipt of a trade readjustment allowance pursuant to the trade act of 1974, 19 U.S.C. 2101 to 2487. This subdivision shall be effective for the 1980 tax year only.~~

(ℓ) ~~(m)~~ Deduct the following payments made by the taxpayer in the tax year:

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

Act No. 316 of the Public Acts of 1986, being sections 390.1421 to 390.1444 of the Michigan Compiled Laws.

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

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

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

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

(D) The contract is entered into either:

(I) After the purchaser has had his or her offer to enter into an advance tuition payment contract rejected by the board, if the board determines that the trust cannot accept an unlimited number of enrollees upon an actuarially sound basis.

(II) After the board determines that the trust can accept an unlimited number of enrollees upon an actuarially sound basis.

(M) ~~(n)~~ If an advance tuition payment contract under the Michigan education trust act, Act No. 316 of the Public Acts of 1986, or another contract for which the payment was deductible under subdivision ~~(m)~~ (*l*) is terminated and the qualified beneficiary under that contract does not attend a university, college, junior or community college, or other institution of higher education, add the amount of a refund received by the taxpayer as a result of that termination which amount shall be the lesser of the amount of the refund or the amount of the deduction taken under subdivision ~~(m)~~ (ℓ) for payment made under that contract.

(N) ~~(o)~~ Deduct from the taxable income of a purchaser the amount included as income to the purchaser under the internal revenue code after the advance tuition payment contract entered into under the Michigan education trust act, Act No. 316 of the Public Acts of 1986, is terminated because the qualified beneficiary attends an institution of postsecondary education other than either a state institution of higher education or an institution of postsecondary education located outside this state with which a state institution of higher education has reciprocity.

(O) ~~(p)~~ Add to the extent deducted in determining federal adjusted gross income the net operating loss deduction under section 172 of the internal revenue code.

(P) ~~(q)~~ Deduct a net operating loss deduction for the taxable year as defined in section 172 of the internal revenue code subject to the modifications under section 172(b)(2) of the internal revenue code and subject to the allocation and apportionment provisions of chapter 3 of this act for the taxable year in which the loss was incurred.

(Q) DEDUCT, TO THE EXTENT INCLUDED IN FEDERAL ADJUSTED GROSS INCOME, ORDINARY AND NECESSARY EXPENSES PAID OR INCURRED DURING

THE TAXABLE YEAR IN CARRYING ON A TRADE OR BUSINESS AS DESCRIBED IN SECTION 162 OF THE INTERNAL REVENUE CODE. THE TAXPAYER IS ALLOWED A DEDUCTION FOR ALL EXPENSES THAT QUALIFY UNDER SECTION 162 OF THE INTERNAL REVENUE CODE WHETHER OR NOT THE TAXPAYER IS CONSIDERED AN EMPLOYEE UNDER THE INTERNAL REVENUE CODE, THE EXPENSES ARE CONSIDERED REIMBURSED OR UNREIMBURSED, OR THE DEDUCTION IS CONSIDERED A MISCELLANEOUS ITEMIZED DEDUCTION UNDER THE INTERNAL REVENUE CODE. A TAXPAYER SHALL NOT CLAIM A DEDUCTION UNDER THIS SUBDIVISION UNLESS THE TAXPAYER'S RETURN IS ACCOMPANIED BY A COPY OF THE FEDERAL FORM ON WHICH THE EXPENSE IS ITEMIZED FOR FEDERAL TAX RETURN PURPOSES.

(2) For a tax year beginning during 1987, a personal exemption of $1,600.00; for a tax year beginning during 1988, a personal exemption of $1,800.00; for a tax year beginning during 1989, a personal exemption of $2,000.00; and for a tax year beginning after December 31, 1989, a personal exemption of $2,100.00 times the number of personal or dependency exemptions allowable on the taxpayer's federal income tax return pursuant to the internal revenue code shall be subtracted from taxable income. A single additional exemption of $1,400.00 for a tax year beginning during 1987, $1,200.00 for a tax year beginning during 1988, $1,000.00 for a tax year beginning during 1989, and $900.00 for a tax year beginning after December 31, 1989, is allowed for each of the following:

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

(b) The taxpayer is a deaf person as defined in section 2 of the deaf persons' interpreters act, Act No. 204 of the Public Acts of 1982, being section 393.502 of the Michigan Compiled Laws.

(c) The taxpayer is a person who is 65 years of age or older.

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

(3) A nonresident or a part-year resident is allowed that proportion of a personal exemption allowed under subsection (2) that the taxpayer's income from Michigan sources bears to the total income from all sources.

Sec. 52. (1) For tax years beginning after 1986 AND BEFORE 1988, a person with respect to whom a deduction under section 151 of the internal revenue code is allowable to another federal taxpayer during the tax year is not considered to have an allowable federal exemption for purposes of section 30(2) and, notwithstanding sections 51 and 315, if that person has an adjusted gross income for that tax year of $1,500.00 or less, is exempt from the tax levied and imposed in section 51 and is not required to file a return under this act.

(2) FOR TAX YEARS BEGINNING AFTER 1987, A PERSON DESCRIBED IN SUBSECTION (1) IS ALLOWED TO DEDUCT $1,500.00 FROM TAXABLE INCOME AS A PERSONAL EXEMPTION.