# Michigan Income Tax

Written & Compiled by: Mary Jane Hourani, MM EA, NTPI Fellow

# *Course Overview:*

**Individual Income Tax**

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# Individual Income Tax

## Personal Exemption Allowance

A. The personal exemption is for each taxpayer and dependent

B. The additional exemption for deaf, paraplegic, quadriplegic, hemiplegic, blind, disabled (before age 66)** **NOTE:** The definition of Disabled is an individual who is deemed medically disabled and has not reached age 66 by the end of that calendar year.

C. The additional exemption for qualified disabled veterans.

D. The exemption for stillbirth with MDHHS Certificate

E. Reduced exemption for individuals claimed as a dependent

Michigan Department of Treasury (Rev. 04-22), Page 1 of 2

Issued under authority of Public Act 281 of 1967, as amended.

**2022 MICHIGAN Individual Income Tax Return MI-1040**

**Return is due April 18, 2023.** Type or print in blue or black ink.

**Amended Return** ☐ (Include Schedule AMD)

| | | | |
|---|---|---|---|
| 1. Filer's First Name | M.I. | Last Name | 2. Filer's Full Social Security No. (Example: 123-45-6789) |
| If a Joint Return, Spouse's First Name | M.I. | Last Name | 3. Spouse's Full Social Security No. (Example: 123-45-6789) |
| Home Address (Number, Street, or P.O. Box) | | | |
| City or Town | State | ZIP Code | 4. School District Code (5 digits – see page 60) |

5. **STATE CAMPAIGN FUND**
Check if you (and/or your spouse, if filing a joint return) want $3 of your taxes to go to this fund. This will not increase your tax or reduce your refund.
a. ☐ Filer
b. ☐ Spouse

6. **FARMERS, FISHERMEN, OR SEAFARERS**
☐ Check this box if 2/3 of your income is from farming, fishing, or seafaring.

7. **2022 FILING STATUS.** Check one.
a. ☐ Single
b. ☐ Married filing jointly
c. ☐ Married filing separately*
* If you check box "c," complete line 3 and enter spouse's full name below:

8. **2022 RESIDENCY STATUS.** Check all that apply.
a. ☐ Resident
b. ☐ Nonresident *
c. ☐ Part-Year Resident *
* If you check box "b" or "c," you must complete and **include Schedule NR**.

9. **EXEMPTIONS. NOTE:** If someone else can claim you as a dependent, check box 9e, enter 0 on line 9a and enter $1,500 on line 9e (see instr.).

| | | | | | | |
|---|---|---|---|---|---|---|
| a. Number of exemptions (see instructions) | 9a. | | x | $5,000 | 9a. | 00 |
| b. Number of individuals who qualify for one of the following special exemptions: deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled | 9b. | | x | $2,900 | 9b. | 00 |
| c. Number of qualified disabled veterans | 9c. | | x | $400 | 9c. | 00 |
| d. Number of Certificates of Stillbirth from MDHHS (see instructions) | 9d. | | x | $5,000 | 9d. | 00 |
| e. Claimed as dependent, see line 9 NOTE above | 9e. | ☐ | | | 9e. | 00 |
| f. Add lines 9a, 9b, 9c, 9d and 9e. Enter here and on line 15 | | | | | 9f. | 00 |

## Tax Rate

The annualized rate is 4.25%

## Earned Income Tax Credit Reduced

A. The Earned Income Credit is 6% of the Federal Earned Income Tax Credit.

## Additions to Federal AGI to arrive at Michigan Taxable Income

A. Tax Exempt Interest & Dividends – NON-Michigan Obligations (even if it is reported from a pass-through entity).
B. Capital Gain Adjustment – from MI 1040D or MI 4797.
C. Losses from business or property attributable to another state.
D. Losses from disposal of U.S. obligations if included in AGI.
E. Deduction for Self Employment Tax from Federal Tax Return.
F. MESP Non-qualified withdrawal.
G. Federal NOL, NOL Carryover used to reduce Federal AGI.
H. MET Contract Refund.

**Additions to Income (all entries must be positive numbers)**

| | | | |
|---|---|---|---|
| 1. Gross interest and dividends from obligations issued by states (other than Michigan) or their political subdivisions | 1. | | 00 |
| 2. Deduction for taxes on or measured by income, including self-employment tax, taken on your federal return, and allocated share of tax paid by an electing flow-through entity (see instructions) | 2. | | 00 |
| 3. Gains from Michigan column of MI-1040D and MI-4797 | 3. | | 00 |
| 4. Losses attributable to other states (see instructions) | 4. | | 00 |
| 5. Net loss from federal column of your Michigan MI-1040D or MI-4797 | 5. | | 00 |
| 6. Oil, gas, and nonferrous metallic mineral expenses (Michigan sourced) deducted to arrive at Adjusted Gross Income (AGI) | 6. | | 00 |
| 7. Federal Net Operating Loss deduction included in AGI | 7. | | 00 |
| 8. Other (see instructions). Describe: ______ | 8. | | 00 |
| **9. Total additions. Add lines 1 through 8. Enter here and on MI-1040, line 11** | 9. | | 00 |

# Subtraction from Federal AGI to arrive at Michigan Taxable Income

A. Income from U.S Government Obligations to extent included in Federal AGI.
B. Income from business/property in another state.
C. Military – compensation and/or retirement benefits.
D. Capital Gain Adjustment from MI 1040D or MI 4797.
E. Retirement & Pension Benefits – See Next Section.
F. Dividend/Interest/Capital Gains for Senior if born before 1946.
G. Michigan State and Local Tax Refunds if included in Federal AGI.
H. Michigan Property Tax Credit to the extent it is included in Federal AGI.
I. Social Security Benefits/Tier 1 RR Benefits to the extent they are included in AGI.
J. Income earned while a RESIDENT of a Renaissance Zone if certified or renewed BEFORE December 31, 2011.
K. Amount used to determine credit for elderly or totally/permanently disabled from Federal Schedule R or Federal 1040A Schedule 3.
L. 529 Plans – MESP managed by TIAA-CREF and/or MI 529 Advisor $ 5,000 Single/$ 10,000 Joint.
M. MET Contract Advanced Payment.
N. Income from MI Oil & Gas Production – NET Income Only and only if Gross Income was subject to Severance Tax.
O. Flow-through Entity Income Attributed to another State.

**Subtractions from Income (all entries must be positive numbers)**

| | | | | |
|---|---|---|---|---|
| 10. | Income from U.S. government bonds and other U.S. obligations included in MI-1040, line 10. Include U.S. *Schedule B* if over $5,000 | 10. | | 00 |
| 11. | Amount included in MI-1040, line 10, from military retirement benefits due to service in the U.S. Armed Forces or Michigan National Guard, or taxable railroad retirement benefits | 11. | | 00 |
| 12. | Gains from federal column of Michigan MI-1040D and MI-4797 | 12. | | 00 |
| 13. | Income attributable to another state. **Explain type and source:** | 13. | | 00 |
| 14. | Taxable Social Security benefits or military pay (not retirement) included on MI-1040, line 10 | 14. | | 00 |
| 15. | Income earned while a resident of a Renaissance Zone (see instructions). | 15. | | 00 |
| 16. | Michigan state and local income tax refunds received in 2022 and included on MI-1040, line 10 (see instructions) | 16. | | 00 |
| 17. | Michigan Education Savings Program, MI 529 Advisor Plan, and Michigan Achieving a Better Life Experience Program. | 17. | | 00 |
| 18. | Michigan Education Trust | 18. | | 00 |
| 19. | Oil, gas, and nonferrous metallic minerals income (Michigan sourced) included in AGI | 19. | | 00 |
| 20. | Resident Tribal Member income exempted under a State/Tribal tax agreement or pursuant to *Revenue Administrative Bulletin 1988-47* | 20. | | 00 |
| 21. | First-Time Home Buyer Savings Program. Enter amount from line 3 of Form 5792, *Michigan First-Time Home Buyer Savings Program*. **Include Form 5792**. | 21. | | 00 |
| 22. | Miscellaneous subtractions (see instructions). **Describe:** | 22. | | 00 |

## Cancellation of Debt/Forgiveness (COD)

Cancellation of Debt may be excluded from AGI if the debt is discharged in Bankruptcy or is the result of Insolvency. Insolvency occurs when the taxpayers' liabilities exceed the fair market value of total assets. Discharge or Cancellation of Debt on Principle Residence Mortgage Interest is also subtracted from AGI in Michigan.

A. If COD is included in AGI it cannot be subtracted.
B. If COD is included in AGI it must be included in Total Household Resources (exception applies, see discussion under Total Household Resources).
C. If COD is excluded from AGI, it is an Addition to AGI.
D. If COD is excluded from AGI, it must be included in Total Household Resources (exception applies, see discussion under Total Household Resources).

## Form 4642 Michigan Voluntary Contributions Schedule

The following Voluntary Contributions are still available for taxpayers to make when filing their Michigan 1040:

Michigan Department of Treasury
4642 (Rev. 03-22)

Issued under authority of Public Act 281 of 1967, as amended.

### 2022 MICHIGAN Voluntary Contributions Schedule

**INSTRUCTIONS:** Use this schedule to make a donation from your refund to any of the organizations listed below. If you are not receiving a refund, your donation will increase your tax due. Check the box associated with the dollar amount you wish to contribute in columns A or B or enter a specific dollar amount greater than $10 in the space provided in column C. Enter the total of your contribution for each line in column D. For detailed descriptions of each fund, see the reverse side of this form. Include with Form MI-1040.

Type or print in blue or black ink.

**Attachment 18**

| Filer's First Name | M.I. | Last Name | Filer's Full Social Security No. (Example: 123-45-6789) |
|---|---|---|---|
| If a Joint Return, Spouse's First Name | M.I. | Last Name | Spouse's Full Social Security No. (Example: 123-45-6789) |

| | A. | B. | C. Other Amount (greater than $10) | | D. Total Contribution |
|---|---|---|---|---|---|
| 1. American Red Cross Michigan Fund | $5 | $10 | $ .00 | 1. | .00 |
| 2. Animal Welfare Fund | $5 | $10 | $ .00 | 2. | .00 |
| 3. Children's Trust Fund - Prevent Child Abuse Michigan | $5 | $10 | $ .00 | 3. | .00 |
| 4. Military Family Relief Fund | $5 | $10 | $ .00 | 4. | .00 |
| 5. United Way Fund | $5 | $10 | $ .00 | 5. | .00 |
| 6. Add column D, lines 1 through 5. Enter total of column D here and carry amount to your MI-1040, line 22 | | | | 6. | .00 |

This form must be included with your MI-1040 to ensure your contributions are properly credited to the designated fund(s).

# Retirement & Pension Benefits

Effective January 1, 2012, the taxable amount of Retirement & Pension Benefits changed significantly.

The taxation or subtraction of Retirement & Pension Benefits is determined by the Age of the OLDEST spouse if filing a joint return regardless of the age of the younger spouse.

## Basic Retirement & Pension Review

There are many different types of Retirement Plans. Depending upon how they were created determines whether they are a Qualified Plan in the state of Michigan for purposes of subtracting them under the Retirement & Pension Exclusion.

A. Qualified Plans: Pensions, IRAs (provided the recipient is 50½ or older, Disabled or qualifies under 72T) and Section 401(k) with employee contribution mandated to receive employer-matching funds.
B. Michigan & Federal Public Pensions.
C. Railroad Retirement – Tier 2 income included in AGI as a pension, Tier 1 taxable/subtractable as Social Security.
D. Non-Qualified Plans:
    1. 403(B) Plans – offered by schools/churches/universities – referred to as “tax sheltered annuities” – without matching contributions/funds from their employer
    2. Section 401(k) Plans – without matching contributions/funds from their employer
    3. Early Distributions from Pensions/IRA – unless special exception applies, i.e. disability
    4. Private Annuities – distributions taken for specified number of years as opposed to over their lifetime by a Senior Citizen (over age 65)
    5. 457 Plans – wage deferral plans that come from Government Units (counties) and Non-Profit Organizations (hospitals). Read the name – State Street Trust from State of Michigan Employee
    6. Decedent Distributions (except from Qualifying Spouse)

**Private Pensions**

Private pensions include employer plans and individual plans such as IRAs and senior citizen annuities. The maximum subtraction allowed for a Tier 1 retiree with a private pension is adjusted annually by the percentage increase in the U.S. Consumer Price Index. The maximum deduction for the 2022 tax year is $56,961 on a single return and $113,922 for a joint return.

The following table outlines the annual maximum private pension deductions for retirees born before 1946 (Tier 1):

| Tax Year | Single Return | Joint Return |
|---|---|---|
| 2018 | $51,570 | $103,140 |
| 2019 | $52,808 | $105,615 |
| 2020 | $53,759 | $107,517 |
| 2021 | $54,404 | $108,808 |
| 2022 | $56,961 | $113,922 |

**Pension Subtraction Examples**

**Example 1: Combined Public and Private Pension distributions.**

Sam is retired and single and born before 1946. He has a SOM pension of $33,000 and a private pension of $21,404. His total pension deduction for 2022 is determined as follows:

| | |
|---|---|
| Maximum Private Pension Deduction | $56,961 |
| Less: Public Pension | -33,000 |
| Allowable Private Pension Subtraction | $23,961 |
| Sam's total pension subtraction is: | |
| Public | $33,000 |
| Private | 23,961 |
| **Total** | **$56,961** |

If Sam's public pension was more than $56,961, he would not be able to subtract any of his private pension.

**Example 2: Employer and Employee contributions to a 401(k) plan.**

Stuart's employer established a 401(k) plan for its employees. The plan provides for a 50 percent employer match of employee contributions up to the maximum employer match of 3 percent of the employee's salary. The plan also allows the employees to make additional unmatched contributions up to the annual percentage rate allowed by the IRC. In 2022, Stuart retired under the provisions of the retirement plan at age 60. At the time of his retirement, Stuart received an annual statement from the 401(k) plan showing total contributions of $400,000, of which $100,000 were employer contributions. Stuart took a distribution of $25,000 in 2022, the year he retired.

Since the plan includes unmatched employee contributions, Stuart must determine what amount of the $25,000 distribution is attributed to the unmatched contributions. The plan called for a 50 percent employer match; therefore, $200,000 of the employee contributions was required to elicit $100,000 employer matching contributions. The remaining account balance of $100,000 is unmatched employee contributions. The deductible amount of the 2022 distribution is determined as follows:

$100,000/$400,000 x $25,000 = $6,250 (distribution attributed to unmatched contributions)

$25,000 - $6,250 = **$18,750 (Maximum allowable pension subtraction. Actual subtraction may be further limited based on the date of birth of the retiree.)**

| INCOME TAX FOR RETIREMENT BENEFITS<br>EFFECTIVE FOR TAX YEAR 2022 | | |
|---|---|---|
| Taxpayers born<br>before 1946<br>(Tier 1) | Taxpayers born<br>1946 through 1952<br>(Tier 2) | Taxpayers born<br>after 1952<br>(Tier 3)<br>Before the taxpayer reaches age 67 |
| • Social Security is exempt.<br><br>• Senior citizen subtraction for interest, dividends, and capital gains up to $12,127 for single filers and $24,254 for joint filers.*<br><br>• Public pensions exempt.<br><br>• Private pensions, subtract up to $56,961 for single filers and $113,922 for joint filers.<br><br>*Subtraction may be limited if pension benefits are also subtracted. | • Social Security is exempt.<br><br>• Railroad and Michigan National Guard pensions are exempt.<br><br>• Military compensation and pensions are exempt.<br><br>• Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.<br><br>• Public and private pension limited subtraction of $20,000 for single filers or $40,000 for joint filers.<br><br>• Pensions from employment with governmental agencies not covered by the SSA. $35,000 for single filer, $55,000 for joint filers, or $70,000 for joint filers if both spouses worked for an "uncovered" agency. | • Social Security is exempt.<br><br>• Railroad and Michigan National Guard pensions are exempt.<br><br>• Military compensation and pensions are exempt.<br><br>• Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.<br><br>• Not eligible for public or private pension subtraction.<br><br>• At age 62, pensions from employment with governmental agencies not covered by the SSA. $15,000 for single or joint filer or $30,000 for joint filers if both spouses worked for an "uncovered" agency.<br><br>• Beginning in 2018, pension from employment with governmental agencies not covered by the SSA for persons retired as of January 1, 2013, $35,000 for single filer, $55,000 for joint filer, or $70,000 for joint filers if both spouses worked for an "uncovered" agency. |

| | Tier 2<br>After the taxpayer reaches<br>Age 67 | Tier 3<br>After the taxpayer reaches<br>Age 67 |
|---|---|---|
| | • Social Security is exempt.<br><br>• Railroad and Michigan National Guard pensions are exempt (see below).<br><br>• Military compensation and pensions are exempt (see below).<br><br>• Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.<br><br>Eligible for **Standard deduction**:<br><br>• Subtraction against all income of $20,000 for single filers and $40,000 for joint filers.<br><br>• Subtraction increased to $35,000 for single filers and $55,000 for joint filers with pensions from employment with governmental agencies not covered by the SSA, or to $70,000 for joint filers if both spouses worked for an "uncovered" agency.<br><br>• Not eligible for this income subtraction to the extent Military income and Railroad/Michigan National Guard pension exemption are claimed. | • Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.<br><br>• Not eligible for public or private pension subtraction.<br><br>• Income exemption election:<br><br>– **Elect** exemption against all income of $20,000 for single filers or $40,000 for joint filer<br><br>**Note:** No exemption for Social Security, Military compensation and pension, and Railroad/Michigan National Guard pension. No personal exemptions.<br><br>**OR**<br><br>– **Elect** to exempt Social Security, Military compensation and pension, and Railroad/Michigan National Guard pension. May claim personal exemptions.<br><br>• Beginning in 2018, persons retired as of January 1, 2013, and receiving pension from employment with governmental agencies not covered by SSA may claim standard deduction of $35,000 for single filer, $55,000 for joint filer, or $70,000 for joint filers if both spouses worked for an "uncovered" agency; not eligible for this income subtraction to the extent Military income and Railroad/Michigan National Guard pension exemption are claimed. |

**The following table is a review of Codes reported on Form 1099-R:**

| 1099R Code | Description | Subtractable |
|---|---|---|
| 1 | Early Distribution, no known exceptions | NO |
| 2 | Early Distribution, exception applies | Only if part of the series of equal periodic payments and only if early retirement under the plan terms (Example: Buyouts)<br><br>Distributions from a 457 Plan (a kind of deferred compensation plan) are not exempt |
| 3 | Disability | YES |
| 4 | Death | YES, only if the Surviving Spouse and Only if the decedent would have qualified for a Normal Distribution Code 7 at the time of Death<br><br>NO, for all other beneficiaries<br><br>NO, if paid as a death benefit payment made by an employer but not made as part of a pension profit sharing, or retirement plan |
| 5 | Prohibited transaction – Section 1035 Exchange – exchange for life insurance, endowment insurance and annuity contracts | NO |
| 6 | Annuity Contracts | NO |
| 7 | Normal<br>• Normal distribution form a plan<br>• Distribution from a traditional IRA, if the participant is at least 59 ½<br>• Roth conversion if the participant is at least age 59 ½<br>• Distribution from a life insurance, annuity, or endowment contract must be 65 and part of a series of mainly equal periodic payments made for the life of the employee or the joint lives of the employee and their beneficiary | YES |
| 8 | Taxable Excess Contribution plus earnings/excess deferrals | NO |

| | | |
|---|---|---|
| 9 | Cost of Current Life Insurance | NO |

**The following table is a review of Exception Codes reported on Form 1099-R:**

| **1099R Code** | **Description** | **Subtractable** |
|---|---|---|
| J | Early Distribution from a ROTH IRA – this code is used when there are “no known exceptions. Form 8606 will need to be completed to determine basis and whether any of it is non-taxable | YES, if there is a non-taxable portion |
| 2 | Early Distribution, exception applies– ROTH conversion, Distribution due to an IRS Levy, Section 457(b) Plan that is not subject to the additional 10% Penalty, distribution from a Qualified Retirement Plan after separation from service in or after the year the taxpayer reaches age 55, distribution from Governmental Defined Benefit Plan to Public Safety Employee after separation from service in or after the year they reach age 50 OR Section 72(T) Qualified payments (distribution received as part of a series of equal periodic payment) | Only if part of the series of equal periodic payments and only if early retirement under the plan terms (Example: Buyouts) |
| Q | Qualified Distribution from a ROTH | YES |
| T | ROTH IRA Distribution, exception applies | Only if the Surviving Spouse and Only if the decedent would have qualified for a Normal Distribution Code 7 at the time of Death |

## Pension Withholding Requirements

If proper withholding does not occur in the year in which income is received and a tax liability results a taxpayer may be subject to significant Penalties and Interest for under-withholding.

All Michigan Taxing Jurisdiction Pension Administrators are required to provide a MI W-4P to recipients of Retirement & Pension Income. It is the taxpayer's responsibility to return the form with the proper withholding exemption indicated.

# Total Household Resources

Total Household Resources replaces what we have referred to as Household Income in years prior to January 1, 2012. Total Household Resources is used for computing Homestead Property Tax Credit and Home Heating Credit.

Total Household Resources is the same as Household Income without any net business losses from Schedule C, Schedule E (page 1 & page 2 flow-through entities) and Schedule F as well as losses from sale of Business Assets reported on Form 4797 related to Schedule C, E, F AND those flowing through from Schedule K-1. The flow through losses from Schedule K-1 onto Form 4797 can also be from a Trust or Estate. Also excluded are net losses from Rentals and Royalties Schedule E (page 1). Federally allowed capital losses reported on Schedule D continue to be allowed.

**MCL Section 206.508 defines Total Household Resources as:**

*(4) "Total household resources" means all income received by all persons of a household in a tax year while members of a household, increased by the following deductions from federal gross income:*

*(a) Any net business loss after netting all business income and loss.*

*(b) Any net rental or royalty loss.*

*(c) Any carryback or carryforward of a net operating loss as defined in section 172(b)(2) of the internal revenue code.*

The following are used when figuring Total Household Resources:

**Total Household Resources INCLUSIONS:**

A. "All income received by all persons of a household in a tax year while members of a household...Federal adjusted gross income plus income specifically excluded or exempt from the computation of federal adjusted gross income."

**B.** ALL Social Security/SSI/RRB **including Minor Children or other Dependent Adults**

C. Child Support
D. Worker's Compensation
E. VA Benefits including Disability, Repatriate Assistance, Refugee Assistance
F. FIP Assistance, DHS Assistance, State Disability Assistance, State Family Assistance
G. Sick Pay and Long-term Disability not otherwise reported elsewhere
H. Lump Sum Distribution not otherwise reported elsewhere
I. Gains realized on Sale of Principal Residence **EVEN IF EXCLUDED FROM FEDERAL**
J. Award, prizes, lottery, bingo and gambling winnings less than $ 300
K. Farmland Preservation Tax Credit (if not included in Farm Income)
L. Inheritance (except from spouse)
M. Compensation for damages to character, personal injury or sickness
N. Proceeds of a Life Insurance Policy paid on death of the insured (except spouse)
O. Death Benefits paid by or on behalf of an employer
P. Minister's Housing Allowance
Q. Scholarships, stipends, grants or GI bill benefits
R. Reimbursement from Dependent Care and/or Medical Care Savings Accounts – WHY? Because they are excluded from Income otherwise.
S. Value over $ 300 of cash gifts, merchandise or expenses paid on the claimant's behalf (rent, taxes, utilities, food, medical care...).
T. Vendor payments for shelter, heat and utilities
U. Rollover amount from IRA to ROTH IRA to extent included in AGI.
V. Foreign Earned Income Exclusion
W. Accumulation distributions received from a trust not previously included in AGI.
X. Add back Net Business Losses reported on Schedule C including the Netting of Gain/Loss from Form 4797 directly related to that Schedule C.
Y. Add Back Net Rent/Royalty Losses reported on Schedule E including the Netting of Gain/Loss from Form 4797 directly related to that Schedule E.
Z. Add back Net Farm Business Losses reported on Schedule F including the Netting of Gain/Loss from Form 4797 directly related to that Schedule F.
AA. Add back Net Loss from Flow Through Entities including the Netting of Gain/Loss from Form 4797 and other reportable items on Schedule K-1.
BB. Add back Net Operating Losses
CC. Add back Cancellation of Debt – to the extent the COD is Excluded from Federal AGI even as a result of Bankruptcy or Insolvency. **SEE EXCLUSIONS ITEM L AND NOTE BELOW**.

**RAB 1989-11¶319-101** indicates *"The amount of the cancelled debt is included in household income in the following instances and to the extent that it is: (1) included in federal adjusted gross income, or (2) used to reduce a credit carryover or foreign and United States possession tax credits."*

**Total Household Resources EXCLUSIONS:**

A. Minor Child's Income
B. Loan proceeds
C. State & Local Income Tax Refunds
D. Homestead Property Tax & Home Heating Credits
E. Original contributions from pension
F. Stipends received under Foster Grandparent Program
G. Inheritance from Spouse
H. Life Insurance Benefits from policy on claimant's spouse
I. Nontaxable dividend distributions – Return of Capital
J. Relief in kind by a government unit to a third party
K. Losses on the Sale of Principal Residence
L. Cancellation of Debt – to the extent the COD is Excluded from Federal AGI, and the COD is a result of a Loan Work Out or Loan Modification Program.

**RAB 1989-11 ¶319-101** indicates *"The amount of cancelled debt is not included in household income if it is used to reduce a net operating loss, capital loss, or basis of property. The cancelled or discharged debt in these instances is reflected in household income in a later year as a result of the reduction or loss of the above tax attributes".*

**Note:** In a 'workout' (loan modification) the COD is not part of household income because any gain or loss is postponed until the owner sells. As a result, when the owner eventually sells the house he/she may recognize more gain (assuming they sell it for a gain) which will be included in the total household income at that time.

Basis Adjustment is required for this Loan Workout or Loan Modification Plan:

Basis - a value used to compute gain or loss on a sale - is adjusted by the COD.

Example # 1: Jane purchased a home in 1982 for $ 100,000 and made not improvements to increase her basis. In 2009 she entered into a Loan Workout/Loan Modification Plan where the bank wrote down $ 30,000 of her mortgage. Jane sold the home in 2012 for $ 75,000. How much of this Income, if any, is included in her Total Household Resources?

Basis <COD> = Adj Basis<Sale Price> = Gain/Loss

$ 100,000 <30,000> = 70,000 <75,000> = $ 5,000 Gain

Example # 2: Jane purchased a home in 1982 for $ 100,000 and made not improvements to increase her basis. Jane sold the home in 2012 for $ 75,000. How much of this Income, if any, is included in her Total Household Resources?

$ 100,000 = 100,000 <75,000> = $ <25,000>

**Adjustments to Total Household Resources:**

A. Payments TO IRA, Keogh, SEP or SIMPLE plans
B. Student Loan Interest Deduction
C. Health Savings Account Deduction
D. Medical Insurance/HMO premiums paid by claimant in AFTER TAX DOLLARS – What about Medical Insurance paid on our Auto Insurance Polices??? YES
E. Moving Expenses to move INTO Michigan
F. Deduction for SE Tax
G. SE Health Insurance Deduction
H. Forfeited Interest Penalty for Premature Withdrawal
I. Alimony Paid
J. Domestic Production Activities Deduction

## The following will be used to compute Household Resources for MI-1040CR, MI-1040CR-2 and the MI-1040CR-7:

**TOTAL HOUSEHOLD RESOURCES. If filing a joint return, include income from both spouses. If married filing separately, you must include Form 5049 available on Treasury's website.**

| | | | | | |
|---|---|---|---|---|---|
| 13. | Wages, salaries, tips, sick, strike and SUB pay, etc. ........................ 13. | 00 | 20. | Social Security, SSI, and/or railroad retirement benefits... 20. | 00 |
| 14. | All interest and dividend income (including nontaxable interest)....... 14. | 00 | 21. | Child support and foster parent payments received .... 21. | 00 |
| 15. | Net business income (including net farm income). If negative, enter "0" 15. | 00 | 22. | Unemployment compensation. ..................... 22. | 00 |
| 16. | Net royalty or rent income. If negative, enter "0". .................... 16. | 00 | 23. | Gifts received or expenses paid on your behalf. .............. 23. | 00 |
| 17. | Retirement pension, annuity, and IRA benefits. ................................ 17. | 00 | 24. | Other nontaxable income Describe: 24. | 00 |
| 18. | Capital gains less capital losses (see instructions).. ........................ 18. | 00 | 25. | Workers'/veterans' disability compensation/pension benefits 25. | 00 |
| 19. | Alimony and other taxable income Describe: 19. | 00 | 26. | FIP and other MDHHS benefits (Do not include food assistance) 26. | 00 |

27. **SUBTOTAL.** Add lines 13 through 26 ........................................................................ **SUBTOTAL** 27. 00

**Continue on page 2. This form cannot be**

# Homestead Property Tax Credit

**<u>MCL Section 206.508</u> defines a Homestead as:**

*(2) "Homestead" means a dwelling or unit in a multiple-unit dwelling that is subject to ad valorem taxes, or a service charge in lieu of taxes as provided by section 15a of the state housing development authority act of 1966, 1966 PA 346, MCL 125.1415a, owned and occupied as a home by the owner of the dwelling or unit, or occupied as the dwelling of the renter or lessee, including all unoccupied real property not classified for ad valorem tax purposes as commercial, industrial, residential, or timber-cut over, owned by the owner of the homestead. Beginning in the 1990 tax year, a homestead does not include unoccupied real property that is leased or rented by the owner to another person and that is not adjacent and contiguous to the home of the owner. Additionally, the following apply:*

*(a) If a homestead is an integral part of a larger unit of assessment such as commercial, industrial, residential, timber-cut over, or a multipurpose or multidwelling building, the tax on the homestead shall be the same proportion of the total property tax as the proportion of the value of the homestead is to the total value of the assessed property.*

*(b) If the gross receipts of the agricultural or horticultural operations do not exceed the household income, or if there are no gross receipts, the following apply:*

***(i) If the claimant has lived on the land 10 years or more, all of the adjacent and contiguous agricultural or horticultural lands shall be considered a homestead and the credit is allowed for all the land.***

***(ii) If the claimant has lived on the land less than 10 years, not more than 5 acres of adjacent and contiguous agricultural or horticultural land shall be considered a part of the homestead and the credit is allowed for that part of the land.***

*(c) A mobile home or trailer coach in a trailer coach park is a homestead and the site rent for space is considered the rent of a homestead. The specific tax levied by section 41 of 1959 PA 243, MCL 125.1041, is considered a property tax.*

**<u>MCL Section 206.520</u> defines Property Taxes for purposes of the Homestead Credit as follows:**

*(1) Subject to the limitations and the definitions in this chapter, a claimant may claim against the tax due under this part for the tax year a credit for the property taxes on the taxpayer's homestead deductible for federal income tax purposes pursuant to section 164 of the internal revenue code, or that would have been deductible if the claimant had not elected the zero bracket amount or if the claimant had been subject to the federal income tax. The property taxes used for the credit computation shall not be greater than the amount levied for 1 tax year. An owner is not eligible for a credit under this section if the taxable value of his or her homestead* ***excluding the portion of a parcel of real property that is unoccupied and classified as agricultural*** *for ad valorem tax purposes in the year for which the credit is claimed is greater than $135,000.00. As used in this subsection, "taxable value" means that value determined under section 27a of the general property tax act, 1893 PA 206, MCL 211.27a.*

*(2) A person who rents or leases a homestead may claim a similar credit computed under this section and section 522 based upon 17% of the gross rent paid for tax years before the 1994 tax*

*year, or 20% of the gross rent paid for tax years after the 1993 tax year. A person who rents or leases a homestead subject to a service charge in lieu of ad valorem taxes as provided by section 15a of the state housing development authority act of 1966, 1966 PA 346, MCL 125.1415a, may claim a similar credit computed under this section and section 522 based upon 10% of the gross rent paid.*

*(3) If the credit claimed under this section and section 522 exceeds the tax liability for the tax year or if there is no tax liability for the tax year, the amount of the claim not used as an offset against the tax liability shall, after examination and review, be approved for payment, without interest, to the claimant. In determining the amount of the payment under this subsection, withholdings and other credits shall be used first to offset any tax liabilities.*

**Property Taxes/Rent Review**

- To qualify an individual must be a resident in Michigan for at least 6 months (183 Days) of that tax year.
- Credit is factored based upon Property Taxes Assessed during that tax year
- Rent actually paid during that tax year
- DO NOT include Special Assessments if they ARE based upon a Flat Fee, are attributed to a Village and/or are NOT assessed based on a Uniformity Millage Rate within the taxing jurisdiction.
- Qualified Special Assessments are those assessed based on a Uniformity Millage Rate, Taxable Value and assessed on the ENTIRE taxing jurisdiction.
- Do NOT include Delinquent Water or Sewer bills
- Do NOT include Association dues
    - **Taxable Value Cap**

- No credit if the **Taxable Value** of the homestead exceeds $143,000.
- Only applies to the Residential and Building Portion of Farms (See Farmland Preservation Credit).
- Does not apply to Rental Homesteads.

**Special Situations:**

A. Separated & Divorced Claimants --- Prorate income while living together in SAME Homestead. Claim as usual when Separate Homesteads are maintained. *** Attach Form 2105, a copy of computation and Property Tax Claimed showing each share claimed ***

| | | | | |
|---|---|---|---|---|
| **Example: Ron & Rosemary were Separated March 1, and Divorced December 2.** | | | | |
| Rosemary stayed in the Marital home all year, Ron Rented a separate apartment | | | | |
| beginning March 1. Ron paid Mary $ 300 (half the house payment) from March | | | | |
| through December and 40 weeks of Child Support $ 160 per week. Property Tax | | | | |
| Bills on the Marital Home were $ 2850, no specials. Ron's rent was $ 500 per month. | | | | |
| | | | | |
| **Wages:** | | **Ron** | **Rosemary** | |
| Jan - Feb 28 | | 7,200.00 | 5,000.00 | |
| March 1 - Dec 31 | | 36,000.00 | 2,500.00 | |
| | | | | |
| **FIRST calculate Property Taxes for each spouse prior to separation** | | | | |
| % of Income Prior to Separation | | 59% | 41% | |
| Prorated Prop Tax Prior to Separation | (2850 x 2/12) x Claimants % | **280.00** | **195.00** | |
| | | | | |
| **Second calculate Credit for each Spouse INDEPENDENT for remainder of year** | | | | |
| 100% of Prop Tax LESS Prorated share | 100% x (2850-475) | | **2,375.00** | |
| Rent Paid | (500 x 10) x 20% | **1,000.00** | | |
| | | | | |
| **Finally TOTAL it up** | | | | |
| **Property Tax Credit to Claim** | | **1,280.00** | **2,570.00** | |
| | | | | |
| | | | | |

B. Shared Housing – Each Single Person who is contracted to pay rent or owns a share of the home may claim the credit based on his or her household income and THEIR PRORATED SHARE OF TAXES OR RENT PAID.

C. Nursing Home, Home for the Aged and Foster Care -- Permanent Residents ONLY are eligible for the credit of their PRORATED SHARE OF TAXES PAID (Divide facilities Prop Tax by # of Licensed Beds. The facility can provide this information) If Room & Board are billed Separately CLAIM RENT.

D. Special Housing – If rent includes other services, meals/housekeeping, prorate out the RENT paid or Prorated Share of Taxes.

E. Service Fee Housing – 10% of Rent may qualify to be claimed for credit.

# Home Heating Credit

The home heating credit is available to low-income taxpayers. Taxpayers must file for the credit no later than September 30th and the amount of the credit is issued directly to the service provider, DTE, Consumers, SEMCO, etc. This credit is not available to full-time students claimed as a dependent of another as well as residents of congregate living facilities such as a nursing home, adult foster care home, etc.

# City Income Tax

**STATE OF MICHIGAN ACT 284 OF 1964 (CITY INCOME (EXCISE) TAX ENABLING ACT):**

*SEC 141.612 Excise tax on incomes; application to resident individuals.*
*Sec. 12. The tax shall apply on the following types of income of a resident individual to the same extent and on the same basis that the income is subject to taxation under the federal internal revenue code:*

*(a) On a salary, bonus, wage, commission and other compensation.*
*(b) On a distributive share of the net profits of a resident owner of an unincorporated business, profession, enterprise, undertaking or other activity, as a result of work done, services rendered and other business activities wherever conducted.*
*(c) On dividends, interest, capital gains less capital losses, income from estates and trusts and net profits from rentals of real and tangible personal property.*
*(d) On other income of a resident individual.*

*History: 1964, Act 284, Imd. Eff. June 12, 1964.*

**CITY E-FILE**

- Limited number of cities are participating in E-file.
- E-file will be available for the same period as federal E-file. Only a limited number of software programs available for city E-file.
- Paper returns are still permissible for those cities.

**CITY RETURN FILING**

Because E-file of the federal & state returns is becoming much more prevalent and only a few cities are accepting E-filed returns, client confusion continues to cause non-filing of the paper returns we prepare for them. Please emphasize to your clients, where appropriate, that they **must** mail in the paper city return we give them.

**ATTACHMENTS**: Attachments are required to be submitted with the City Income Tax Return. The following is a list of items that are required to be submitted. It is also safe to assume that if your software has printed attachments, you need to include them when filing the return.

1. All relevant federal schedules.
2. All relevant partnership (form 1065), S-Corp (form 1120s), Estate & Trust (Form 1041) Forms K-1.
3. All W-2's (whether they have city withholding or not) or Michigan Schedule W. The Cities' preference is W-2 copies as this facilitates employer EIN matching.
4. For resident returns, **all** 1099-R's. (remember that most early distributions and distributions from sec 457 plans
   **are** taxable under the uniform city income law.)
5. Relevant city return if there is city tax paid to another city and there is a credit claimed.
6. In general, the more information included with the return, the better.

**Residence And Employment Addresses**

- If a different mailing address for the taxpayer (P.O. Box) is used, the actual Residence Street Address is REQUIRED. The actual address within the city required for Employment Address. DO NOT ASSUME the address on the Employee's W-2 is the ACTUAL Employer address as very often it might be the corporate headquarters or a payroll processing point and not the actual place of employment.
- You need to know in what jurisdiction your client lives and works in order to determine what city return(s) need to be filed. Do not assume because the client or business has a taxable city name in their address that they are subject to that city's income tax. Most cities have a street name list on their websites for your reference.

**REFUND CHECKS**

If your client receives a city refund check (*and tells you*) on a return that the refund was supposed to be applied to the succeeding year, have them return the check to the city with a note explaining the reason for returning it. Have clients cash their refund checks otherwise it will be considered Unclaimed Property.

**Employer Letters – Nonresident Returns**

Nonresidents of the following cities must attach a signed letter from their employer, if they are allocating their W-2 wages to time not worked in the city of employment.

**Severance Pay – Nonresident Returns**

Nonresidents, who receive severance pay for time worked in a taxable city, are required to pay city income tax on that severance pay. Allocation for time not worked in the city is allowed usually on the basis of the average allocation of the three immediately previous city nonresident tax returns filed.

**Estimated Payments**

City estimated payments are due when the tax exceeds $ 100 and withholding (if any) is less than 70% of total tax due. The payments must be made timely, i.e., in four equal quarterly installments if the income is received evenly over the year. **Due dates: 4/30, 6/30, 9/30, 1/31.**

# Abandoned & Unclaimed Property

Uniform Unclaimed Property Act (Public Act 29 of 1995, as amended) effective March 1996

**What is it?** Tangible or Intangible Personal Property owned by a person. Example: Cash, Securities, Safe Deposit Box Contents, Uncashed Paychecks, Uncashed Vendor checks, Uncashed money orders or travelers checks, Shares of stock & associated dividends, A/R credit balances, Insurance policy benefits, Dormant escrows accounts.....

**Who has it?** A Business, Financial Institution, Governmental Entity who is in possession of property belonging to another party. **It doesn't matter where organized or domiciled**

**What is Dormancy?** The time period when the owners do nothing with the property, normally 3 years, except payroll checks which are 1 year. Dormancy ends March 31.

**What is Escheatment?** The transfer of property from the holder to the State. The State then becomes Custodian of the Property. Report due July 1.

**Who administers it?** The Michigan Department of Treasury which holds all property turned over and attempts to return it to rightful owners or their heirs.

**What do we do when we have it?**

1. Send a notice to the property owner's last known address between 60-365 days prior to the Escheatment of the Property. **Due Diligence Notice**
2. Prepare in NAUPA format a Holder Report, Holder Transmittal and file electronically by July 1
   a) Check for amount reported and/or shares of stock.
   b) Clearly identify owners, last known address, description of property, amount of property.
   c) Documents must be filed on magnetic media, (preferable format – CD) OR through the Website.
3. Maintain unclaimed property records for 10 reportable years.

**Where do we report it?**

1. www.michigan.gov/unlcaimedproperty
2. 517-636-6940 Reporting - State of Michigan Unclaimed Property Division

**Where do we find it?**

1. 517-636-5320 Claimants – State of Michigan Unclaimed Property Division
2. www.naupa.org National Association of Unclaimed Property Administrators
3. www.missingmoney.com

**Checklist of Procedures:**

1. Verify historical unclaimed property returns have been filed and verify the actual amounts paid to the state.
2. Verify how many years of banking and GL records the company must comply with escheat laws, Michigan requires records back to 1995.
3. Put a hold on all potential records to be used.
4. Obtain all banking and GL records available and review records for unclaimed property.
5. Determine if credits were reclassed to the Income Statement and quantify those.
6. Contact third party administrator providers to verify if any unclaimed property reports were filed and obtain records (list of outstanding checks).
7. Match address information to property and perform Due Diligence to return property to rightful owner.
8. Perform final review of all information, records, receipts.
9. File appropriate Unclaimed Returns.

# Medicaid Estate Recovery

Estate Recovery is a program administered by Michigan Department of Community Health in an effort to recapture benefits payments an individual received prior to their date of death. This program affects those ages 55 or older AND who have received long-term care services after September 29, 2007, **MCL Section 400.112k**.

An Estate for these purposes is defined under **MCL Section 400.112h** as all property and other assets passed from a decedent to his/her heirs through probate.

MDCH will send out a questionnaire to the Estate Representative or heirs upon a Medicaid Beneficiary's death. The questionnaire must be returned within two weeks of receipt.

There are EXEMPTIONS to Estate Recovery and Medicaid will not recover assets while one of the following individuals is lawfully living in the home.

1. A Medicaid recipient's spouse.
2. A Medicaid recipient's child who is under age 21.
3. A Medicaid recipient's blind or permanently disabled child.
4. A Surviving Spouse or heir who lived in the home and provided care for a Medicaid recipient in the home for at least the two immediately preceding years rather than having the Medicaid recipient reside in a medical facility.
5. A Sibling of the Medicaid recipient who has equity interest in the home, who lived in the home with the recipient at least one immediately preceding year prior to recipients' admission into a medical facility.

There is a HARDSHIP WAIVER that the Estate Representative or Heir may apply for. The following conditions must be met:

1. The Estate is the Sole Income-Producing Asset of the survivors such as a family farm or business.
2. The Home is of Modest Value – the home is worth less than 50% of that of average price of a home in the county on the date of the recipient's death.
3. The State's Recovery would cause a Surviving Spouse to become eligible for or remain on Medicaid.

For more detail on Medicaid Estate Recovery contact Health Management Systems Inc at (877)-791-0435 or visit their website miestaterecovery@hms.com