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REVENUE ADMINISTRATIVE BULLETIN 2015-18

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INCOME TAX – TOTAL HOUSEHOLD RESOURCES DEFINED

(Replaces Revenue Administrative Bulletin 1988-46)

RAB 2015-18. This Revenue Administrative Bulletin (RAB) describes income included in "total household resources" for purposes of computing eligibility for the Homestead Property Tax Credit and the Home Heating Credit.[1] This RAB is effective for tax years beginning after December 31, 2011.

"Total Household Resources" Defined

Beginning in 2012, "household income" as used in Chapter 9 of the Michigan Income Tax Act (MITA) relating to the home heating and the homestead property tax credits was replaced with "total household resources." Total household resources are defined as:

> 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.[2]

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[1] The Farmland Preservation Tax Credit will continue to rely upon the definition of household income as it was under MCL 206.508 in effect for 2011, which defined household income as all income received by all persons of a household in a tax year while members of a household. The Farmland Preservation Tax Credit, originally created by PA 116 of 1974 and formerly called the Farmland and Open Space Preservation Act, is now located in Part 361 of the Natural Resources and Environmental Protection Act, PA 451 of 1994, MCL 324.36109.
[2] MCL 206.508(4); 2011 PA 177 (emphasis added).

"Income" is federal adjusted gross income (AGI) plus all income specifically excluded or exempt from the computation of federal AGI.[3]

"Household" is statutorily defined as a *claimant* and spouse.[4] A claimant is a person who files a claim for a homestead property tax credit or a home heating credit and includes a husband and wife if they are required to file a joint state income tax return.[5] For purposes of the homestead property tax credit only, a claimant must also have been domiciled in Michigan for at least six months of the calendar year preceding the year in which the claim is filed. The terms spouse, husband, and wife include individuals lawfully married to a person of the same sex whether married in Michigan or another state.[6]

Based on the statutory definition of household, the income of both husband and wife must be included in total household resources if 1) they are required to file joint state tax returns, even if the husband and wife do not reside together, or 2) they share a home, regardless of their filing status.

What income is included?

The total household resources (THR) calculation begins with federal AGI and adds back all income specifically excluded or exempt from federal AGI. Items specifically excluded or exempt from AGI are listed in the Internal Revenue Code (IRC) beginning at section 101.[7] Only those sections pertaining to individuals apply. Household resources are not limited to taxable items of income.

Nonexclusive List of Taxable and Nontaxable Income Included in Total Household Resources

- Wages, salaries, tips, sick or long-term disability pay, strike or supplemental unemployment benefits (SUB pay)[8]
- Interest and dividend income (including nontaxable interest income)[9]
- Net business income (if greater than zero)
- Net royalty or rent income (if greater than zero)
- Farmland preservation tax credit[10]
- Retirement pension income, annuity benefits, and IRA and deferred compensation distributions to the extent they are included in AGI
- Rollovers from a traditional IRA to a Roth IRA in the year the income is included in AGI

[3] MCL 206.510.
[4] MCL 206.508(3).
[5] MCL 206.504(2).
[6] See IRS Rev Rul 2013-17 and *Obergefell et al v Hodges*, WL 2473451 (June 26, 2015).
[7] IRC 104-140.
[8] Supplemental unemployment benefits from a company-financed fund are fully taxable as wages. See http://www.irs.gov/Individuals/Employees/Unemployment-Compensation.
[9] MCL 206.30.
[10] The Farmland preservation tax credit is not established under Part 1 of MITA and is therefore included in THR per MCL 206.510(1)(e). See also Mich Admin Code, R 206.4(2)(d) and Michigan Tax Letter Ruling 1985-22. Although Rule 206.4 defines household income (HHI) rather than total household resources, the rule remains instructive because the definition of THR is the same as the definition of HHI except that THR is increased by net business loss after netting all business income and loss, net rental or royalty loss, and any carryback or carryforward of a net operating loss as defined in IRC 172(b)(2).

- The amount of a qualified distribution from a Roth IRA in excess of a taxpayer's contributions to the Roth IRA
- Capital gains less capital losses (including nontaxable gain from the sale of a home) (losses cannot exceed $3,000 if single or married filing jointly or $1,500 if married filing separately)
- Alimony received[11]
- The amount over $300 of total awards, prizes, lottery, bingo or gambling winnings received during the year[12]
- Social security, supplemental security income (SSI), railroad retirement benefits and retirement, survivors, and disability insurance (RSDI) benefits received by the taxpayer, the taxpayer's spouse or minor children[13]
- Child support and foster parent payments[14]
- Unemployment compensation and trade readjustment allowances (TRA) benefits[15]
- The amount over $300 of total gifts of cash or goods received during the year including all payments made on the taxpayer's or taxpayer's spouse's behalf by relatives, friends, and/or other individuals except government payments made directly to third parties such as an educational institution or housing authority [16]
- Inheritance (except from the death of a spouse) or proceeds of a life insurance policy paid on death of the insured (except from the death of a spouse)[17]
- Scholarships, stipends, grants, and payments made directly to an educational institution, except government payments[18]
- Worker's compensation benefits paid as compensation for personal injuries, sickness, or death, and veterans' payments for disability, pension, or mustering out[19]
- Cash assistance from a Family Independence Program and other Department of Health and Human Services benefits, not including food assistance[20]
- Cash assistance from the Department of Education for the payment of child care
- Compensation received for damages to character or for personal injury or sickness[21]
- Death benefits paid by or on behalf of an employer[22]
- Housing allowance for ministers or clergy[23]
- Forgiveness of debt, even if excluded from AGI (for example, mortgage foreclosure)[24]
- Reimbursement from dependent care and/or medical care spending accounts
- Foreign earned income excluded from federal gross income[25]

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[11] IRC 71; R 206.4(1)(j).
[12] MCL 206.510(1)(b).
[13] R 206.4(1)(a).
[14] See RAB 1988-28; R 206.4(1)(j).
[15] R 206.4(1)(c).
[16] MCL 206.510(1)(a).
[17] R 206.4(1)(i) and (k); see also Michigan Tax Letter Ruling 1988-47.
[18] R 206.4(1)(m).
[19] R 206.4(1)(d) and (e).
[20] R 206.4(1)(b).
[21] See IRC 104(a); R 206.4(1)(g).
[22] R 206.4(1)(q).
[23] See IRC 107.
[24] See RAB 1989-11.
[25] *DeKoning v Dep't of Treasury*, 211 Mich App 359 (1995); R 206.4(1)(s).

Items not included in Total Household Resources

- Net operating loss deductions taken on the federal return
- Payments received by participants in the foster grandparent or senior companion program
- Energy assistance grants or tax credits[26]
- Government payments to a third party (for example, Medicaid payments to a doctor, and tuition grants, including GI bill, paid directly to an educational institution by a Federal or State agency, and most payments from The Step Forward Michigan program)[27]
- Money received from a government unit such as the Federal Emergency Management Agency to repair or improve the homestead[28]
- Surplus food or food assistance program benefits[29]
- State and city income tax refunds and homestead property tax credits[30]
- Chore service payments (these payments are income to the provider of the service)
- The first $300 from gambling, bingo, lottery, awards, or prizes[31]
- The first $300 in gifts of cash or merchandise received, or expenses paid on the household member's behalf by parents, relatives, or friends[32]
- Amounts deducted from Social Security or Railroad Retirement benefits for Medicare premiums
- Health and accident insurance premiums the taxpayer or taxpayer's spouse paid for their family's plan[33]
- Employer's contributions to life, accident, or health insurance plans[34]
- Loan proceeds
- Inheritance or life insurance proceeds from the death of a spouse
- Payments from a long-term care policy made to a nursing home or other care facility

Netting of Losses

In computing total household resources, three separate categories of net losses must be added back if they reduced federal gross income. To calculate the increase to total household resources from these net losses, a taxpayer must net each category of income and losses separately, ensuring that losses are only netted against income of the same character. For example, rent and royalty losses must be netted only against rent and royalty income, and business losses must be netted only against business income. The net loss of each of those categories must then be included in total household resources in addition to any carryback or carryforward of a net operating loss as defined in IRC 172(b)(2).

[26] MCL 206.510(1)(j).
[27] See R 206.4(2)(b).
[28] MCL 206.510(1)(f).
[29] MCL 206.510(c).
[30] R 206.4(1)(n).
[31] MCL 206.510(1)(b).
[32] MCL 206.510(1)(a).
[33] MCL 206.510(1).
[34] MCL 206.510(1)(i).

Example: During calendar year 2014, Jack had the following income:

ADJUSTED GROSS INCOME	Wages	$23,000
	State tax refund	600
	Non-business (casual) gambling winnings	1,200
	Business income from carpet cleaning service	14,000
	Business loss from landscaping service	(30,000)
	Royalty income from oil well	12,000
	Rental loss from condominium rental	(5,000)
	Net operating loss (NOL)	(4,000)
	Gross income	11,800
	Less	
	IRA contribution	(2,000)
	Adjusted gross income (AGI)	**$ 9,800**

During calendar year 2014, Jack had the following total household resources:

TOTAL HOUSEHOLD RESOURCES	**Adjusted gross income (AGI)**		$9,800
	Add back to AGI		
	Net operating loss		4,000
	Net business loss		
	Carpet cleaning business income	14,000	
	Landscaping service loss	(30,000)	
			16,000
	Subtract from AGI		
	State tax refund		(600)
	First $300 from gambling winnings		(300)
	TOTAL HOUSEHOLD RESOURCES		**$28,900**

The above chart shows the treatment of casual gambling income as well as the separate netting of business income and loss, rental income and loss and net operating losses as required by statute. Adding back net losses from these categories to AGI nullifies the effect of any net loss on AGI. Applying the statutory add-backs to AGI results in the same calculation of total household resources as computed on the Homestead Property Tax Credit Claim Form MI-1040CR:

Wages	$23,000
Gambling (reduced by $300)	900
Net business income	0
Net royalty/rent	7,000
Net operating loss	0
IRA contribution	(2,000)
Total Household Resources	$28,900