



2013

# **Taxpayer Assistance Manual**

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RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

R. KEVIN CLINTON  
STATE TREASURER

December 4, 2013

**Taxpayer Assistance Volunteers:**

Thank you for volunteering your time and effort to the tax assistance program. Your primary role will be to assist taxpayers in preparing their Michigan income tax and credit forms. Specifically, you will be assisting in the preparation of income tax returns, homestead property tax credit, and home heating credit forms. Returns and/or claim forms will be prepared from documentation furnished by the taxpayer(s) along with information obtained from discussion with the taxpayer(s). These step-by-step preparations and techniques will be discussed later in this Manual.

It is important to remember that any information you acquire about a specific taxpayer, or group of taxpayers, is confidential. Do not discuss this information with anyone except the specific taxpayer(s) or Treasury personnel.

Please know that your participation in this service provides a vital resource for many Michigan residents. If you have any general questions, please contact the volunteer help line at 1-888-860-8389.

Again, thank you for the valuable service you are providing to the citizens of Michigan.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. Kevin Clinton".

R. Kevin Clinton  
State Treasurer



## GENERAL GUIDELINES

### COPY OF RETURN

**E-filed Returns:** When electronically filing (e-filing), provide the taxpayer with a paper copy of the return. It may be helpful to mark “COPY” on the taxpayer’s copy to eliminate any confusion and reduce the number of duplicate returns received where the taxpayer’s return was e-filed and then later mailed.

**Paper Returns:** Prepare all returns in duplicate. File the original return and give the copy to the taxpayer. Inform the taxpayer that it is important to keep a copy of the return.

In e-filed or paper return filings, if there are problems regarding the tax return, the taxpayer will be able to refer to the copy to see exactly what was entered on the return. Advise the taxpayer to bring the copy the following year to expedite preparation.

### SIGNATURES

After you have prepared the return, enter your site designation and the date prepared in the preparer’s signature area. Then have the taxpayer (and spouse, if applicable) sign and date the return.

### RELEASE TO DISCUSS INFORMATION

Ask the taxpayer if he or she wants to authorize personnel in Treasury to discuss the return with the volunteer tax preparer if additional information is needed. If so, have the taxpayer check the box.

**Note: Since volunteer preparers do not enter their name, this instruction is generally applicable only to paid preparers.**

### ARRANGING AND MAILING RETURNS AND ATTACHMENTS

Each form contains a two-digit attachment sequence number in the upper-right corner to guide in the proper assembly of *Individual Income Tax Return* (Form MI-1040) and related schedules.

**Do not** staple *Home Heating Credit Claim* (Form MI-1040CR-7) to the other returns. Fold it and leave it loose in the envelope.

Mail return to the address shown on the bottom of the return.

### POSTAGE

The U.S. Post Office calculates postage based on the weight, size, and thickness of an envelope. Consult with the Post Office to avoid delays in delivery; items with insufficient postage will be returned to the sender by the Post Office.

## DECEASED TAXPAYER

If a deceased taxpayer has a surviving spouse and a joint return is filed, use both surviving spouse's and deceased spouse's names and SSNs. Enter "DECD" after the deceased's name. Include all income (including the deceased spouse's) on the return. A full exemption allowance is allowed for the deceased.

If there is no surviving spouse and you are preparing a return for the personal representative or a claimant filing single or joint returns for deceased taxpayer(s), you must attach a copy of U.S. Form 1310 or *Michigan Claim for Refund Due A Deceased Taxpayer* (Form MI-1310). Enter the deceased person's name(s) in Filer and Spouse Name fields as indicated and the representative/claimant name(s), title, and address in the Home Address field on the MI-1040.

For examples, see chart on page 59 of the Michigan 1040 instruction booklet.

## COMPLETING A PAPER-FILED RETURN

Treasury uses scanning equipment to capture the information from paper income tax returns. To avoid unnecessary delays caused by manual processing, follow the guidelines below so that returns are processed quickly and accurately.

- **Use black or blue ink.** Do not use pencil, red ink, or felt tip pens. Do not highlight information.
- **Print using capital letters (UPPER CASE):** Capital letters are easier to recognize.
- **Print numbers like this:** 0 1 2 3 4 5 6 7 8 9. Do not put a slash through the zero or seven.
- **Leave lines/boxes blank** if they do not apply or if the amount is zero.
- **Do not write extra numbers, symbols, or notes** on the return, such as cents, dashes, decimal points, or dollar signs. Enclose any explanations on a separate sheet unless instructed to write explanations on the return. The taxpayer's name, SSN, tax year, and form number should be entered on any attachments.
- **Stay within the lines** when entering information in boxes.
- **Use whole dollars.** Round down amounts less than 50 cents. Round up amounts of 50 cents through 99 cents. Do not enter cents (e.g., 129.49 becomes 129, 129.50 becomes 130).

## INFORMATION FOR 2013: WHAT'S NEW

### **Legislative Changes to the Michigan Income Tax Act for Tax Year 2013**

Public Act (PA) 410 of 2012 imposed Michigan Severance Tax (Severance Tax) on nonferrous metallic mineral extraction in lieu of all other taxes. MCL section 206.31b of the Income Tax Act (ITA) allows a taxpayer who has income and losses from nonferrous metallic mineral extraction subject to Severance Tax to deduct the gross income and related expenses from Michigan taxable income to the extent included in federal Adjusted Gross Income (AGI).

PA 597 (S.B. 409) of 2012 provides an increased pension deduction limit for retirees who receive retirement or pension benefits from employment with a government agency not covered by the federal Social Security Act. (See "Pension Limitations Based on Year of Birth" section on page 33 for additional information and limitations.)

### **New Funds on Voluntary Check-off Schedule**

There are three new funds available for contributions on the 2013 Voluntary Contribution Schedule.

- PA 90 of 2013 Michigan Alzheimer's Association Fund
- PA 89 of 2013 ALS of Michigan Lou Gehrig's Disease Fund
- PA 92 of 2013 Michigan Amber Alert Fund

### **Reporting and Filing for Same-Sex Couples**

The U.S. Supreme Court has invalidated section 3 of the federal Defense of Marriage Act (DOMA) which had established a separate federal definition of marriage. The Internal Revenue Service (IRS) will now accept joint returns from same-sex couples who have state-sanctioned marriages. The Michigan Income Tax Act limits a joint return to a married couple who are "husband and wife." Michigan has defined marriage under Article 1 section 25 of the Michigan Constitution as a union of one man and one woman. Same-sex couples who file a joint federal income tax return must continue to file income tax returns for Michigan with each individual using the single filing status.

Each individual who has income attributable to Michigan and has filed a joint return with the IRS as a same-sex couple should separately report AGI for Michigan income tax as a single filer. Each individual should recalculate their federal AGI as if they had filed a federal return with a single filing status.

### **Reminder**

Beginning in 2013, individuals born in 1946 will reach age 67 and may be eligible for a subtraction of \$20,000 for single filers or \$40,000 for joint filers against all income rather than solely against pension and retirement income. (See "Pension Limitations Based on Year of Birth" section on page 33 for additional information and limitations.)

## SUMMARY OF CHANGES FOR 2013

|  |          |
|--|----------|
| Tax Rate   | 4.25%    |
| Personal Exemption                                       | \$3,950  |
| Special Exemption for Seniors                            | \$0      |
| Special Exemption for Disabled                           | \$2,500  |
| Child Care Deduction                                     | \$0      |
| Qualified Disabled Veteran Deduction                     | \$300    |
| Pension Deduction  |          |
| Single Filer   |          |
| Born before 1946: private pension limit                  | \$48,302 |
| Born in 1946: Standard deduction against all income      | \$20,000 |
| Born in 1947 through 1952                                | \$20,000 |
| Born after 1952, pension not deductible                  | \$0      |
| Jointly Filed  |          |
| Born before 1946: private pension limit                  | \$96,605 |
| Born in 1946: Standard deduction against all income      | \$40,000 |
| Born in 1947 through 1952                                | \$40,000 |
| Born after 1952, pension not deductible                  | \$0      |
| Senior Interest, Dividend, and Capital Gains             |          |
| Single Filer (not available for senior born after 1945)  | \$10,767 |
| Jointly Filed (not available for senior born after 1945) | \$21,534 |

## SUMMARY OF CHANGES FOR PRIOR YEARS

|  | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|--|-------------|-------------|-------------|-------------|
| Tax Rate   | 4.35%       | 4.35%       | 4.35%       | 4.33%       |
| Personal Exemption                                       | \$3,600     | \$3,600     | \$3,700     | \$3,763     |
| Special Exemption  | \$2,300     | \$2,300     | \$2,400     | \$2,400     |
| Child Care Deduction                                     | \$600       | \$600       | \$600       | \$0         |
| Qualified Disabled Veteran Deduction                     | \$300       | \$300       | \$300       | \$300       |
| Pension Deduction  |             |             |             |             |
| Single Filer   | \$45,120    | \$45,120    | \$45,842    |             |
| Born before 1946: private pension limit                  |             |             |             | \$47,309    |
| Born 1946 through 1952                                   |             |             |             | \$20,000    |
| Born after 1952, pension not deductible                  |             |             |             | \$0         |
| Jointly Filed  | \$90,240    | \$90,240    | \$91,684    |             |
| Born before 1946: private pension limit                  |             |             |             | \$94,618    |
| Born 1946 through 1952                                   |             |             |             | \$20,000    |
| Born after 1952, pension not deductible                  |             |             |             | \$0         |
| Senior Interest, Dividend, and Capital Gains             |             |             |             |             |
| Single Filer   | \$10,058    | \$10,058    | \$10,218    |             |
| Single Filer (not available for senior born after 1945)  |             |             |             | \$10,545    |
| Jointly Filed  | \$20,115    | \$20,115    | \$20,437    |             |
| Jointly Filed (not available for senior born after 1945) |             |             |             | \$21,091    |

## FILING INFORMATION

### FEDERAL/STATE AND STATE STANDALONE ELECTRONIC FILING PROGRAM

Over 100 million people nationwide know electronic filing (e-filing) is the way to go! Over 3.6 million Michigan taxpayers choose to e-file their tax returns. Thank you for making e-file a success.



Tax preparers who complete 11 or more income tax returns are required to e-file all eligible returns. Software developers producing tax preparation software or computer-generated forms must support e-file for all Michigan income tax forms that are included in the software package.

Ninety-five percent of Michigan taxpayers can e-file their State and federal tax returns. Taxpayers who choose e-file will continue to receive faster refunds. The software checks the computations before transmission, eliminating data entry mistakes by the filer or data capture process. Treasury also acknowledges receipt of transmitted data within 48 hours from when filed or federal acknowledgment received, overcoming concerns of paper returns being lost in the mail or misplaced. When e-filing federal and State returns together, much of the same data is used so information is entered only once, again lessening the possibility of error.

There are many benefits to tax preparers who participate in the e-file program:

- **Expanded services offered.** E-file is a valuable addition to a tax preparer's list of client services, which can mean more clients. In addition, prospective clients can search for an authorized e-file provider at [www.IRS.gov](http://www.IRS.gov).
- **Faster refunds for e-file returns.** E-filed returns are processed faster than paper returns. **Allow 14 days** before checking the status of the e-filed return by visiting [www.michigan.gov/iit](http://www.michigan.gov/iit). Clients can also choose Direct Deposit and have their refunds deposited directly into their accounts at the financial institution of their choice.
- **Improved return accuracy.** Treasury processes the same data the tax preparer enters into the computer. The computer program checks for math errors. If an error occurs on a return, the e-file software sends an error message and allows the tax preparer to immediately correct the mistake before the return is transmitted. There is two-thirds less chance of error compared to a paper return.
- **Detailed error conditions.** E-file business rules pinpoint the location of the error in the return and provide complete information in the acknowledgement file that is passed back to the transmitter. Business rules use simple wording to clarify each error that triggers a rejection. Treasury will provide up to ten business rule errors per return submission.
- **Increased customer satisfaction.** Only tax preparers and their client see the return. Tax information is encrypted and transmitted directly to the IRS and Michigan. Also, an acknowledgment is sent to verify the return was received and accepted for processing.

- **Prior year returns.** One tax return each for 2011, 2012, and 2013 will be accepted during the 2014 processing year. As subsequent tax years are added to the system, e-file will accept the current tax year and two prior tax years.
- **PDF attachments.** E-file accepts Portable Document Format (PDF) attachments with e-filed returns. Refer to the *Michigan Tax Preparer Handbook for 1040 Modernized e-File (MeF)* for more information on attachments that will be accepted by Michigan.
- **Authorization to discuss.** Treasury staff can see immediately if the taxpayer has granted authorization to discuss the return with the tax preparer. The delays of ordering paper returns and mailing correspondence are eliminated.

**Note: Authorization to discuss is generally available only to paid preparers who enter their name on the return.**

### **How Fed/State (Linked) Electronic Filing Works**

Tax preparers and transmitters accepted in the IRS Fed/State MeF Program may submit federal and/or State returns to the IRS. The State submission can be linked to the IRS submission by including the Submission ID of the federal return. If the State submission is linked to an IRS submission (also referred to as the Fed/State return), the IRS will check to see if there is an accepted IRS submission under that Submission ID. If there is not an accepted federal return for that tax type, the IRS will deny the State submission and a rejection acknowledgment will be sent to the transmitter. Treasury has no knowledge that the State return was denied (rejected) by the IRS. If there is an accepted federal return under that Submission ID, MeF will perform minimal validation on the State submission. The State data will then be made available for retrieval by Treasury. After the State data is retrieved, it will be acknowledged and, if accepted, processed by Treasury.

**Note: The IRS recommends if a State submission is linked to an IRS submission, sending the IRS submission first and, after it has been accepted, sending in the State submission.**

### **How State Standalone (Unlinked) Electronic Filing Works**

Tax preparers and transmitters accepted in the IRS e-file program may submit State Standalone returns when supported by the software. If the Electronic Return Originator (ERO) does not link the State return to a previously accepted federal return (also referred to as State Standalone return), the IRS will perform minimal validation on the State submission. The State data will then be made available for retrieval by Treasury. After the State data is retrieved, it will be acknowledged and, if accepted, processed by Treasury.

## **Who May Participate**

E-filing of Michigan returns is available to all electronic filers who are accepted into the IRS e-file program and who transmit returns to an IRS Service Center. The IRS mandates preparers filing 11 or more income tax returns to e-file those returns, with minor exceptions. Michigan would expect any preparer e-filing federal returns to also e-file the Michigan returns.

## **Application Process**

To participate, applicants must first apply to the IRS and be accepted. Individuals must register with IRS e-Services and create a new (or revised) IRS e-file application. Individuals can contact e-Help toll-free at 1-866-255-0654 for assistance with the IRS e-file application or if unable to register for e-Services.

*Publication 3112 IRS e-file Application and Participation* specifies the application process and requirements for federal participation. The definitions used by the IRS of the various categories of electronic filers, EROs, transmitters, or software developers also apply for Michigan e-filing purposes.

Upon acceptance, the IRS Service Center assigns an Electronic Filer Identification Number (EFIN) and, if applicable, an Electronic Transmitter Identification Number (ETIN) to the applicant.

After receiving the federal acceptance information, applicants are automatically accepted into the Michigan e-file program.

IRS regulations require paid tax preparers to use Preparer Tax Identification Numbers (PTINs) for all tax returns and refund claims. Visit the IRS Web site at [www.irs.gov](http://www.irs.gov) for more information.

## **Acceptance Process**

Treasury may conduct a suitability check on applicants who have been accepted in the Fed/State e-file program. Participation in the program may be denied if a company is not registered to conduct business in Michigan, or if there is an outstanding tax liability with Michigan.

Treasury will use the EFIN assigned by the IRS in the Fed/State e-file program. Michigan does not assign any additional identification numbers.

To participate in the e-file program, electronic filers must use software that has successfully completed the IRS and Michigan Participant Acceptance Testing System (PATS). Confirm that the software chosen was approved for Michigan and that the Michigan e-file program is operational before transmitting returns.

A list of approved software companies is available on Treasury's Web site. Tax preparers are not required to file test returns with Michigan.

If, after acceptance, a tax preparer/transmitter or software company has production problems, Treasury reserves the right to disapprove that tax preparer/software company for part or all of the remainder of the filing season.

**Michigan Portion of the Electronic Return**

The Michigan portion of an electronic return consists of data transmitted electronically and the supporting paper documents. The paper documents contain information that cannot be transmitted electronically.

**Electronic Michigan Returns**

Michigan **e-file will support** the following forms and schedules:

| <b><u>Form</u></b> | <b><u>Title</u></b>   |
|--------------------|---|
| 3174               | Direct Deposit of Refund  |
| 4013               | Resident Tribal Member Annual Sales Tax Credit                          |
| 4642               | Voluntary Contributions Schedule  |
| 4884               | Pension Schedule  |
| 4973               | Pension Continuation Schedule   |
| 4976               | Home Heating Credit Claim MI-1040CR-7 Supplemental                      |
| MI-1040            | Individual Income Tax Return  |
| MI-1040CR          | Homestead Property Tax Credit Claim                                     |
| MI-1040CR-2        | Homestead Property Tax Credit Claim for Veterans and Blind People       |
| MI-1040CR-5        | Farmland Preservation Tax Credit Claim                                  |
| MI-1040CR-7        | Home Heating Credit Claim   |
| MI-1040D           | Adjustments of Capital Gains and Losses                                 |
| MI-1040H           | Schedule of Apportionment ( <b>e-file limited to six occurrences</b> )  |
| MI-2210            | Underpayment of Estimated Income Tax                                    |
| MI-4797            | Adjustments of Capital Gains and Losses from Sales of Business Property |
| MI-8949            | Sales and Other Dispositions of Capital Assets                          |
| Schedule 1         | Additions and Subtractions  |
| Schedule CR-5      | Schedule of Taxes and Allocation to Each Agreement                      |
| Schedule NR        | Nonresident and Part-Year Resident                                      |

**Note: The information from the W-2 and 1099 forms is entered in the software and transmitted with the e-file return. Do not mail W-2 and/or 1099 forms to Treasury. All W-2 and 1099 information, when applicable, is required when submitting a State Standalone return.**

When the following forms are included, the MI-1040 **can be e-filed**, but the forms listed below must be mailed to the address indicated on the form.

| <u>Form</u> | <u>Title</u>   |
|-------------|--|
| 4           | Application for Extension of Time to File Michigan Tax Returns |
| MI-1045     | Application for Michigan Net Operating Loss Refund             |

Following is a list of Individual Income Tax Forms, line reference, and filing conditions where attachments are accepted by Michigan. These forms may also be mailed to the address indicated on the form.

| <u>Form</u> | <u>Line</u> | <u>Description</u>                    | <u>File Name</u>     | <u>Required</u> |
|-------------|-------------|---------------------------------------|----------------------|-----------------|
| All Forms   |             | Power of Attorney                     | POA.pdf              | No              |
| MI-1040     | 18          | Other State Returns                   | OtherStateReturn.pdf | No              |
| MI-1040CR   | 22          | Custodial Party End of Year Statement | FEN851.pdf           | No              |
| MI-1040CR-2 | 21          |                                       |                      |                 |
| MI-1040CR-7 | 24          |                                       |                      |                 |
| All Forms   |             | MI-1310                               | MI1310.pdf           | No              |

**Note: Michigan will accept e-file returns for deceased taxpayers. If a US 1310 is required, that data must be included within the federal folder of the Michigan e-file return. When e-filing on behalf of a single, deceased taxpayer with a balance due federal return and refund Michigan return, the Michigan return can be e-filed and the US 1310 or Form MI-1310 (required documents) included as a PDF attachment when supported by the software or mailed to Michigan.**

The taxpayer is **not eligible for e-file** for the 2013 tax year if:

1. Filing federal returns or forms excluded in e-file.
2. Filing the MI-1040 and any of the following apply:
  - Prior year return(s) for tax year 2010 or prior
  - Not required to file a U.S. Form 1040 if filing Fed/State
  - Filing Form MI-1040CR-5 with more than 25 agreements
  - Filing Form MI-1040CR-5 using different Total Household Resources than on the MI-1040CR, MI-1040CR-2, or MI-1040CR-7
  - Filing Form MI-8949 with more than 36 short-term capital gains/losses or 48 long-term capital gains/losses
  - Filing Schedule 1 and claiming the Michigan Standard Deduction on line 24 with a birthdate of January 1, 1947
  - Filing Form MI-4797 with any of the following:
    - More than 16 sales/exchanges of property held over one year
    - More than 13 sales/exchanges of property held one year or less
    - More than 14 gains from disposition of property under Sections 1245, 1250, 1252, 1254, and 1255.

3. Filing the following Michigan forms:

| <u>Form</u> | <u>Title</u>  |
|-------------|---|
| 3581        | Historic Credit                                     |
| MI-1040X    | Amended Michigan Income Tax Return – 2011 and prior |
| MI-1040X-12 | Amended Michigan Income Tax Return – 2012 and later |
| MI-1041     | Fiduciary Income Tax Return                         |

4. Reporting flow-through withholding.

**Michigan E-file Signature Process**

**For Fed/State Returns:**

Michigan will accept the federal signature (Self-Selected Personal Identification Number (PIN) or Practitioner PIN). Michigan does not require any additional signature documentation. If the taxpayer chooses to complete Form MI-8453, Treasury recommends that the tax preparer retain it for six years. **Do not** mail Form MI-8453 to Treasury.

**For State Standalone Returns:**

State Standalone returns that are filed by a tax preparer with or without an MI-1040 can be signed using “shared secrets” or Form MI-8453 signature document. The shared secrets consist of SSNs, previous year’s AGI or total household resources, and the previous year’s tax due or refund amount. If Form MI-8453 is used, the tax preparer may retain a copy of Form MI-8453. The MI-8453 should **not** be mailed to Treasury.

**Note: If the return is signed using shared secrets and the return is rejected because the shared secrets do not validate, the taxpayer/tax preparer may correct the shared secrets information and retransmit. There is no limit on how many times the return can be retransmitted in this circumstance.**

**Volunteer Groups**

If the taxpayer is filing a State Standalone return and chooses Form MI-8453 signature method, volunteer tax preparers should provide taxpayers with form MI-8453 and also instruct them to keep it with their tax records. The MI-8453 should **not** be mailed to Treasury.

**Refund Returns**

Direct Deposit information is part of the electronic record; therefore, a separate *Direct Deposit of Refund* (Form 3174) does not have to be completed for e-file. However, the Direct Deposit information for the federal and State returns can be different. This is especially important if there is a Rapid Refund or a Refund Anticipation Loan (RAL). Make sure this information is correct for both federal and State refunds. Tax preparers may want to request documentation from the taxpayer to verify bank account information.

Due to recent changes to the rules for Direct Deposit, if the income tax refund Direct Deposit is forwarded or transferred to a bank account in a foreign country, the Direct Deposit may be returned to Treasury. If this occurs, the refund will be converted to a check (warrant) and mailed to the address on the tax return.

Treasury **cannot** make any changes to Direct Deposit information after the return is transmitted.

### **Balance Due Returns**

If tax is due on an e-filed return, the taxpayer must submit payment by check or money order by April 15, 2013, with an *Individual Income Tax e-file Payment Voucher* (Form MI-1040-V). In late March, taxpayers will receive a reminder notice if payment has not been made. If full payment is not submitted by April 15, the taxpayer will receive a bill with applicable penalty and interest. Do not use form MI-1040-V for any other payments to the State of Michigan.

Michigan does not participate in an electronic funds withdrawal process for tax due returns. All e-filed return payments must be mailed to Treasury along with a copy of form MI-1040- V.

### **For More Information**

Visit the federal Web site at *www.irs.gov* and Michigan Web site at *www.MIfastfile.org* for more information on the Fed/State e-file Program.

Assistance is available using TTY through the Michigan Relay Service by calling 1-800-649-3777 or 711. Printed material in an alternative format may be obtained by calling (517) 636-4486.

## **POST-FILING INFORMATION**

### **Mailing Addresses**

General income tax correspondence:

Michigan Department of Treasury  
Customer Contact  
P.O. Box 30757  
Lansing, MI 48909

Returning State of Michigan warrants (checks):

Michigan Department of Treasury  
Office of Financial Services  
P.O. Box 30788  
Lansing, MI 48909

Write "Void" across the warrant (check) and include a letter of explanation.

Returning a home heating Energy Draft for a check:

Michigan Department of Treasury  
Customer Contact  
P.O. Box 30757  
Lansing, MI 48909

Write “Void” across the Energy Draft and include a letter of explanation.

Remind taxpayer the dollar amount will only be 50 percent of the draft and there will be further reviews of their account.

*Refer to the Treasury Web site at [www.michigan.gov/treasury](http://www.michigan.gov/treasury) for more information.*

### **Amended Returns (MI-1040X-12 and MI-1040X)**

Form MI-1040X-12 is used to correct or amend information reported on Form MI-1040, credit claims and schedules for the 2012 and 2013 tax year and beyond. Form MI-1040X is used to correct or amend information reported on a MI-1040, credit claims, and schedules for the 2011 and prior tax years. When filing either form, indicate the tax year, give an explanation of the change, and provide any supporting documentation.

If the original return was adjusted by Treasury and the taxpayer disagrees with the adjustments, it is not necessary to file an amended return. Simply respond to the adjustment notice with documentation to support the original claim. Treasury will review the documentation for further adjustment.

**Exceptions:** When correcting a *Homestead Property Tax Credit* (Form MI-1040CR) and no Form MI-1040 was filed with the original claim, an MI-1040X-12 or MI-1040X is not required. File the Form MI-1040CR using the corrected figures and write “Amended” at the top of the form.

When correcting a *Home Heating Credit* (Form MI-1040CR-7), file a Form MI-1040CR-7 and write “Amended” at the top of the form. An amended claim requesting an additional Home Heating Credit must be submitted by September 30, following the year of the claim.

When correcting a *Farmland Credit* (Form MI-1040CR-5), file a Form MI-1040CR-5 and write “Amended” at the top of the form. Submit the amended form along with a description and any documentation needed to explain the change.

An amended return is not required to change an incorrect SSN or incorrect mailing address. Contact Treasury at [www.michigan.gov/iit](http://www.michigan.gov/iit) or call (517) 636-4486.

An amended return claiming an additional refund must be filed within four years of the due date of the original return.

## CUSTOMER SELF-SERVICE

Taxpayers and authorized representatives can check on the status of tax returns, get a summary of estimated payments, or ask a question about tax accounts using Treasury's convenient Customer Self-Service options. Taxpayers and authorized representatives are encouraged to use these channels to get information quickly and efficiently. For individual income tax information, call (517) 636-4486 or access Treasury's Web site at [www.michigan.gov/taxes](http://www.michigan.gov/taxes).

It is very important that Treasury has the proper security measures in place for customers to access account information over the Internet. For privacy and security reasons, customers will have to authenticate and correctly enter a combination of shared secrets (e.g., AGI, SSN, etc.) before information can be accessed.

On the Web site, click on Check My Income Tax Info and then choose the appropriate link. After verification of identification, additional information may need to be entered depending on the request. If more than one account will be checked, use the Login/Logout button located in the upper-right corner at the end of the Michigan banner to return to the customer login page. The next taxpayer can then be authenticated.

The following self-service options are available for individual tax accounts:

- Check the date Treasury is currently processing returns.
- Check if and when a refund, credit claim, or energy draft has been issued for the current year and three prior years.
- Check to see if a refund, credit, or energy draft has been returned to Treasury, direct-deposited into an account, or offset to a debt.
- Check the status of a letter sent to Treasury.
- Request copies of returns filed.
- Ask Treasury a question related to the account or check the status of a service request.
- Download blank current and prior year tax forms
- Check the status of estimated payments
- Change taxpayer address
- Ask a tax preparation question
- Access a list of frequently asked questions (FAQs)

Call Treasury at (517) 636-4486 to reach the automated response system. Entering or saying the information required activates the automated response system. Be cautioned that background noise or other conversations will be picked up by the automated response system.

The automated response system provides the current processing date and promotes self-service on the Web. Options available on the automated response system include:

- Current year status - The customer enters an SSN and AGI (or THR). The automated response system provides the following status information:
  - Current processing date
  - Completed with date
  - Pending review with date return should finish review

- No record of return
  - The SSN or other information entered may not match Treasury records.
- Estimated payments - Enter the tax year designated on the estimated payment, AGI from the previous year, and the SSN. The automated response system provides payment amount(s) and date(s), credit forward amount and date, no payments on file, or transfers the caller to a Customer Service Representative (CSR).
  - Prior year information - Enter the SSN, AGI (or HHI), and tax year in question. The automated response system provides the following status information:
    - Completed with date
    - Pending review with date
    - No record of return
    - The SSN or other information entered may not match Treasury records.

### **Changes on the Return**

If corrections must be made once the return has been accepted and acknowledged, the taxpayer must file form MI-1040X (for 2011 and prior tax years) or MI-1040X-12 (for tax year 2012 and beyond) on paper.

### **Contact Information**

Michigan e-file publications and forms are available on Treasury's Web site at [www.MIfastfile.org](http://www.MIfastfile.org). For questions about the e-file program, contact the Electronic Filing Programs staff at:

*MIfile2D@michigan.gov*  
 (517) 636-4450  
 (517) 636-4378 (Fax)  
 TTY Assistance only: (800) 649-3777

Michigan Electronic Filing Programs Office  
 Michigan Department of Treasury  
 P.O. Box 30679  
 Lansing, Michigan 48909

This contact information is for **tax preparers and software developers only** and enables Treasury to provide better service to authorized e-file providers. The Electronic Filing Programs staff is unable to provide return status information or address specific taxpayer account issues.

## **Tax Preparer Resources**

Visit Treasury's Web site at [www.Mifastfile.org](http://www.Mifastfile.org) for more information on Michigan's Electronic Filing Programs including:

- **Michigan Tax Preparer Handbook for Electronic Filing Programs.** Two handbooks are available: *Individual Income Tax Handbook* and *Individual Income Tax Business Rules/Reject Codes and Descriptions*. Go to Treasury's Web site at [www.Mifastfile.org](http://www.Mifastfile.org), click on Tax Preparer, and scroll down to the current tax year handbook links.
- **Treasury Tax Professionals LISTSERV.** This is a free service that disseminates mass e-mail messages, within seconds, to all subscribers. This includes communications on Treasury's e-file programs, updates to tax instruction booklets, and other information of interest. To subscribe to this service or for additional information, visit Treasury's Web site at [www.Mifastfile.org](http://www.Mifastfile.org), click on Tax Preparer, and scroll down to the LISTSERV links.
- Frequently asked questions.

CHAPTER 2  
MICHIGAN INCOME TAX  
FORM MI-1040

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GENERAL INFORMATION

**FILING REQUIREMENTS**

Every person who is a Michigan resident for all or part of the tax year is **required** to file a Michigan income tax return if any of the following are true:

1. Michigan Income Tax is due.
2. The taxpayer is due a refund.
3. A federal return is required.
4. The AGI is greater than the personal exemption allowance on a Michigan Income Tax return.

For tax year 2013, a taxpayer is allowed \$3,950 for each personal exemption.

Anyone eligible to be claimed as a dependent on someone else's return may claim a \$1,500 exemption (\$3,000 on a joint return). This is true whether or not the other person claims the exemption.

To prepare a Michigan income tax return, you must have a copy of the taxpayer's federal income tax return. You will need to complete the Michigan Form MI-1040 if the return is a U.S. Form *1040*, *1040A*, or *1040EZ*. The U.S. Form *1040/1040A/1040EZ* return contains information needed to prepare a Michigan income tax return.

Taxpayers who file any of the following schedules or forms with their federal return must attach a copy to their Michigan income tax return and designate the location of any business activity or the location of any real property involved.

|                          |  |
|--------------------------|--|
| Schedule B               | Interest and dividend income (if over \$5,000)   |
| Schedule C or C-EZ       | Profit or loss from business   |
| Schedule D and Form 4797 | Capital and ordinary gains and losses (copies of U.S. Forms <i>1040D</i> and <i>4797</i> are required if taxpayer is filing Forms MI-1040D and MI-4797). |
| Schedule E               | Supplemental income and loss (losses from rents, royalties, partnerships, estates and trusts, and S corporations)  |
| Schedule F               | Farm income and expenses (include address of farm)   |

|                   |   |
|-------------------|---|
| <i>Schedule R</i> | Credit for the elderly or the disabled  |
| Form 2555         | Foreign earned income   |
| Form 3903         | Moving expenses   |
| Form 4868         | Application for Automatic Extension of Time to File U.S. Individual Income Tax Return                   |
| Form 6198         | Computation of deductible loss from an activity described in Internal Revenue Code (IRC) Section 465(c) |
| Form 8829         | Expenses for business use of home   |
| Form 8949         | Sales and other Dispositions of Capital Assets  |

## **MI-1040**

This chapter will refer to the “instructions.” This refers to the instruction booklet used to prepare Form MI-1040. Read the instruction booklet. The following information will recap and/or further explain the instructions in the booklet.

### **DUE DATE OF RETURN**

Income tax returns are due on the 15th day of the fourth month following the close of the taxpayer’s calendar or fiscal tax year. If the due date falls on a weekend or a holiday, the next business day will be considered the due date. The due date for 2013 income tax returns will be April 15, 2014.

### **EXTENSION**

If a taxpayer submits a valid extension of time to file a federal income tax return, attach a copy of U.S. Form 4868 if filed by paper or the acknowledgement or confirmation received from IRS if filed electronically to Form MI-1040. Treasury will extend the due date to the new federal due date.

If a taxpayer does not have a federal extension, complete *Application For Extension Of Time To File Michigan Tax Returns* (Form 4) **with the payment of tax due.** Upon receipt of Form 4, Treasury will grant an automatic extension of time to file.

The taxpayer will not receive any notification of approval of a request for an extension.

An extension allows a taxpayer to file later than April 15, 2014. It does not allow a taxpayer to pay the tax later. If the tax is not paid by April 15, 2014, appropriate penalty and interest will be charged.

Do not file an extension request if claiming a refund.

United States military personnel serving in a combat zone on April 15, 2014, will be given 180 days after leaving the combat zone to file their federal and State returns and will be exempt from penalties and interest. Servicemen and women serving in combat zones should write “Combat Zone” in ink on the top of page 1 of their return. For e-file returns, enter the word “Combat Zone” in the preparer notes or follow other direction as supplied by the tax software company.

## **IDENTIFICATION SECTION**

Enter taxpayer’s:

- Name(s).
- Current mailing address. If the taxpayer changes his or her address after filing a return/claim, the taxpayer should notify Treasury **in writing** of the change of address.

## **SOCIAL SECURITY NUMBER(S)**

Ask to see taxpayer’s Social Security (SS) card(s). It is important to enter the taxpayer’s correct SSN(s). If the claimant is married filing jointly or married filing separately, both SSNs must be included on the form.

## **SCHOOL DISTRICT CODE**

Obtain the code number from pages 60 and 61 of the instruction booklet.

For residents, enter the school district code for where the taxpayer lived on December 31, 2013. For nonresidents and for part-year residents who did not live in Michigan as of December 31, 2013, enter “10000” in the school district code box.

## **STATE CAMPAIGN FUND**

A taxpayer and/or spouse may designate \$3 of their taxes to go to the State campaign fund. This decision will not increase the tax liability or reduce the refund.

## FILING STATUS

The filing status used on Form MI-1040 must be the same as the filing status used for the federal return, with two exceptions: taxpayers who file “married filing separately” for federal purposes may file either “married filing jointly” or “married filing separately” on the Michigan return, and same-sex couples filing “married filing jointly” for federal purposes must file “single” on their Michigan return.

| <u>Federal Status</u> | <u>State Status</u> |
|-----------------------|---------------------|
| Single                | Single              |
| Head of Household     | Single              |
| Qualifying Widow(er)  | Single              |
| Married, Joint        | Married, Joint      |
| Married, Separate     | Married, Separate   |
|                       | or                  |
|                       | Married, Joint      |
| Same-Sex Couples      |                     |
| Married, Joint        | Single              |
| Married, Separate     | Single              |

## RESIDENCY STATUS

Check box a, b, or c. If one spouse is a resident and the other spouse a nonresident or part-year resident, check the appropriate box for each spouse. If taxpayer is a part-year resident for the tax year or a nonresident, Schedule NR must be completed.

1. **Resident.** An individual is a Michigan resident if Michigan is his or her permanent home. A permanent home is the place an individual intends to return to whenever he or she goes away.
2. **Nonresident.** An individual whose permanent home is not in Michigan. A nonresident must file a Michigan return if any income is attributable to Michigan. Some examples are wages earned in Michigan or income received from a business activity located in Michigan.
3. **Part-Year Resident.** An individual who moved in or out of Michigan during the year. A temporary absence from Michigan, such as spending the winter in a southern state, **does not** make the taxpayer a part-year resident. A taxpayer is a part-year resident only if he or she moved his or her permanent home into or out of Michigan.

A taxpayer filing as a nonresident or part-year resident must:

1. Complete Schedule NR and attach it to Form MI-1040 allocating all items of AGI between the states. (Attach appropriate schedules verifying adjustments.)
2. Prorate the exemption allowance by dividing Michigan income by total income.

Michigan has reciprocal agreements with Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin. Michigan residents pay only Michigan income tax on salaries and wages earned in these states.

A resident of a reciprocal state who earned wages in Michigan must file Form MI-1040 to receive a refund of Michigan tax withheld. Be sure to indicate the taxpayer's state of residence.

## **EXEMPTIONS**

The following are the exemption allowances for 2013:

- \$3,950 for each exemption the taxpayer is allowed to claim on the federal return.
- An additional \$2,500 for each Michigan special exemption.
- A \$300 deduction for each taxpayer and every dependent of the taxpayer who is a qualified disabled veteran. Defined as a veteran of the active military, naval, marine, coast guard, or air service who received an honorable or general discharge and has a disability incurred or aggravated in the line of duty as described in 38 U.S.C. 101(16) of the U.S. Code.
- \$1,500 for a taxpayer who is single or married filing separately (\$3,000 if married filing jointly) and can be claimed as a dependent on someone else's return.

**Note: Part-year residents and nonresidents must prorate the exemption allowance using Schedule NR.**

Beginning in 2012, special exemptions are no longer available for seniors or for individuals receiving greater than 50 percent of their AGI from unemployment compensation. Only taxpayers who have one or more of the conditions described below may claim a special exemption.

Special exemptions for 2013 are:

1. A special exemption may be claimed for the taxpayer, spouse, and each dependent of the taxpayer who are in any of the following categories:
  - A. Hemiplegic. An individual who has paralysis of one side of the body.
  - B. Paraplegic. An individual who has paralysis of the lower half of the body.
  - C. Quadriplegic. An individual who has paralysis of both arms and both legs.
  - D. Totally and permanently disabled. An individual who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than 12 months. Do not claim totally and permanently disabled if the taxpayer is age 66 or older.

Support for this exemption is the receipt of any of the following types of income:

- Social Security Disability benefits
- Supplemental Security Income (SSI) disability benefits
- Veterans' Administration disability retirement payments.

A taxpayer who does not receive any of the above income may be required to furnish a physician's statement to certify total and permanent disability. For an additional reference see 42 U.S.C. 416 of the U.S. Code.

**Note: An exemption for totally and permanently disabled cannot be claimed for a claimant, spouse, or dependent who is 66 years of age or older at the end of the tax year.**

- E. Blind. An individual who has a permanent impairment of both eyes of the following status: central visual acuity of 20/200 or less in the better eye, with corrective glasses, or central visual acuity of more than 20/200 if there is a field defect in which the peripheral field has contracted to such an extent that the widest diameter of visual field subtends an angular distance of not greater than 20 degrees in the better eye.
- F. Deaf. An individual whose hearing is totally impaired or whose hearing, with or without amplification, is so seriously impaired that the primary means of receiving spoken language is through other sensory input, including but not limited to lip reading, sign language, finger spelling, or reading.

## ADJUSTED GROSS INCOME

Enter the adjusted gross income (AGI) from the U.S. Form *1040*, *1040A*, or *1040EZ*.

## ADDITIONS TO ADJUSTED GROSS INCOME

The following are the most common additions and must be entered on Schedule 1. Enter the total on line 9 and carry total to line 11 of Form MI-1040.

- Interest and dividends from obligations or securities of states other than Michigan and their political subdivisions
- Deduction for self-employment tax on U.S. Form 1040
- Losses from out-of-state businesses, partnerships, S corporations
- Losses from out-of-state rental of real property
- Out-of-state farm losses
- Net loss from federal column of Form MI-1040D or MI-4797

- Losses from the sale or exchange of U.S. obligations to the extent used in arriving at AGI
- Refund received from the termination of a Michigan Education Trust (MET) contract
- Michigan portion of gain from Form MI-1040D or MI-4797
- Federal net operating loss deduction.

## **SUBTRACTIONS FROM ADJUSTED GROSS INCOME**

The following are the most common allowable subtractions and must be entered on Schedule 1. Enter the total on line 27 and carry total to line 13 of form MI-1040. Subtractions are limited to the extent included in AGI.

- Income from U.S. government obligations reduced by any expenses in carrying the obligation used in arriving at AGI
- Compensation and retirement benefits received for services in the U.S. Armed Forces to the extent included in AGI.
- Pension/retirement benefits received from the service in the Michigan National Guard
- Pension/retirement benefits received under the Railroad Retirement Act of 1974 to the extent included in AGI
- Capital gain adjustments (from federal column of MI-1040D or MI-4797)
- Income from a business or property located in another state
- Retirement/pension benefits. (*Caution:* these benefits have been limited and are discussed in detail in a separate section on Pension and Retirement Benefits)
- Dividend/interest/capital gains deduction for senior citizens (*Caution:* this subtraction is no longer available for individuals born after 1945)
- Social Security (SS) benefits to the extent included in AGI
- Income earned while a resident of a Renaissance Zone that was certified or renewed before January 1, 2012
- Contributions made after October 1, 2000, to the MESP, not to exceed \$5,000 for a single return or \$10,000 for a joint return per year
- The amount of an advance payment under a MET contract during the tax year
- Michigan state and local income tax refunds to the extent included in AGI
- Property tax credit to the extent included in AGI

Items not allowed as a subtraction:

- Income from U.S. Public Health Service
- Itemized deductions (U.S. *Schedule A*)
- Wages, salaries, and personal compensation earned in Michigan of a resident or nonresident, unless a resident of a reciprocal state
- Pensions, if the taxpayer did not meet the minimum requirements for pension under the terms of the plan (see the detailed information that follows)
- Distributions from IRAs before the age of 59½, unless the taxpayer meets the guidelines of IRC 72(t)(2)(A)(iv)
- Distributions from deferred compensation plans
- Unemployment benefits included in AGI
- Wage continuation plans (disability pension benefits are not from wage continuation plans)
- Stock purchase plans that do not qualify as pension plans under the IRC
- IRA, Keogh contributions (these are subtracted in arriving at AGI)
- Lottery winnings (unless receiving installment payments from prizes won before December 30, 1988).
- Out-of-state gambling winnings taxed by another state (a credit for taxes paid may be available).

## PENSION AND RETIREMENT BENEFITS INFORMATION

### GENERAL INFORMATION

**Note: Form 4884, Michigan Pension Schedule, will be required to support a subtraction.**

For purposes of this section, the term “pension” will include pension and retirement benefits.

A subtraction may be allowed on the Michigan return for qualifying distributions from pension plans. Pension plans include private and public employer plans, and individual accounts governed by various sections of the IRC.

The pension subtraction involves two steps. **First**, the pension distribution must meet certain requirements to be characterized as a qualified distribution. **Second**, a qualified distribution may

be subject to a dollar limitation on the amount of the subtraction. Beginning in 2012, the benefit may be further limited based on the date of birth of the retiree on a single return or the date of birth of the oldest spouse on a joint return.

**Note: Generally, all taxpayers are allowed to subtract qualifying Military, Railroad, and Michigan National Guard pensions to the extent included in AGI regardless of their year of birth. See subtraction list on page 29.**

## **Step 1: Qualified Distribution Requirements**

Employer plans and individual plans each have rules for receiving pension distributions. For a pension distribution to qualify for the Michigan subtraction it must comply with the specific distribution rules under its plan.

### **Employer Plans**

Employer plans are created by private companies and by public entities. The employer plan establishes the rules that govern retirement age and the pension formula for its employees. For both public and private employer plans, an employee must retire under the provisions of the plan, the pension benefits must be paid from a retirement trust fund, and the payment must be made to either the employee or the surviving spouse. (Payments made to the surviving spouse are only deductible if the employee qualified for the subtraction at the time of death.)

Although traditional employer plans are defined contribution and defined benefit plans, many employers are now using 401(k) or 403(b) plans that incorporate employee match provisions.

Distributions from a 401(k) or 403(b) plan are qualified distributions to the extent that they are attributable to the employer's contributions or employee's contributions that were mandated by the plan. An employee's contribution required by the plan to elicit an employer match is considered mandated. Amounts distributed from a 401(k) or 403(b) plan that allows the employee to set the amount of compensation to be deferred and does not prescribe retirement age or years of service **do not** qualify as pension benefits.

### **Individual Plans**

Individuals can create their own pension plans. To qualify for the Michigan pension subtraction, the distributions must meet the requirements set forth in the relevant section of the IRC.

#### **Individual Retirement Account (IRA) IRC 408 Distribution Requirements.**

1. 59½ or older, or
2. Disability, or
3. Death - Distributions after the death of the participant may only be subtracted by a surviving spouse, and only if the distributions qualified as a subtraction for the participant at the time of death; or
4. Series of equal periodic payments made for life under IRC Section 72(t)(2)(iii)(iv).

Generally, distributions from a Roth IRA are not included in AGI and are not subtractable on the Michigan return. Roth IRAs are treated in more detail later in the text.

- **Senior Citizen Annuity IRC 72 Distribution Requirements.**

1. Received from a retirement annuity policy, and
2. For life, and
3. To a senior citizen.

For purposes of the retirement annuity subtraction, a senior citizen is defined in MCL 206.514(1) as an “individual . . . who is 65 years of age or older at the close of the tax year. The term also includes the un-remarried surviving spouse of a person who was 65 years of age or older at the time of death.”

**401(k), 403(b), and 457 Plans.** If all the contributions are made by the employee or if the employee makes contributions that are **not** matched by the employer, any distributions attributable to the employee contributions will not qualify for the pension subtraction.

**Keogh or HR 10 Plans for the Self-Employed.** Distributions are subject to the same general rules for other retirement plans, usually not made until a participant separates from service, the plan is discontinued, or the participant reaches age 59½.

**The following distributions do not qualify for the pension subtraction:**

1. Deferred compensation plans that allow the employee to set the amount of compensation to be deferred and do not prescribe retirement age or years of service
2. Commercial Annuity Policies (unless the payments are made for life to a senior citizen)
3. Premature separation, withdrawal, or discontinuance of a plan prior to the earliest date the recipient could have retired under the provisions of the plan
4. Payments received as an incentive to retire early unless the distributions are from a pension trust
5. Eligible distributions received by a beneficiary of the decedent except the surviving spouse.

**Step 2: Dollar Limitations on Pension Subtractions**

Once it has been determined that a pension distribution has met the requirements of a qualified distribution set forth in Step 1, the next step is to determine if there are any dollar limitations on the amount of the Michigan pension subtraction.

For 2012 and future tax years, new limitations on pension deductions have been added based on the year of birth of the retiree who is a single filer or on the year of birth of the oldest spouse on

a joint return. The sections that follow first discuss dollar limitations based on year of birth. After the date of birth limitations have been discussed, the private pension limitations will be reviewed

## **Pension Limitations Based on Date of Birth**

MCL 206.30(8) defines “retirement or pension benefits.” MCL 206.30(9) provides limitations to the deduction, depending upon the birth year of the retiree, as well as filing status and marital status. Retirees are divided into three tiers based on date of birth of the taxpayer or the date of birth of the oldest spouse on a joint return.

**Tier 1:** For a taxpayer born before 1946, there are no additional restrictions or limitations to the deduction allowed under MCL 206.30(1)(f).

**Tier 2:** For a taxpayer born in 1946 through 1952, the maximum pension deduction is \$20,000 for a single return or \$40,000 for a joint return. At age 67, the deduction is no longer restricted to pensions but can be applied to all income. This general deduction is sometimes referred to as a “standard deduction” because it is applied against all income. Taxpayers born in 1946 will reach age 67 in 2013 and are eligible for the standard deduction; however, the standard deduction against all types of income is not available to the extent the deduction for U.S. Armed Forces retirement benefits, Railroad Retirement Act benefits or pension benefits from Michigan National Guard services is claimed.

Taxpayers who claim the standard deduction should **not** complete *Pension Schedule* (Form 4884).

**Note: Taxpayers who file a joint return and the older spouse was born prior to 1946 (Tier 1) are not eligible for the standard deduction.**

If a taxpayer receives a pension from a governmental agency that was not covered by the federal Social Security Act (SSA), the maximum pension deduction is increased. The “uncovered” taxpayer may deduct \$35,000 of pension income on a single return and \$55,000 of pension income on a joint return (\$70,000 on a joint return if both spouses were “uncovered”). At age 67, this taxpayer may deduct these increased amounts as the “standard deduction” against all income; however, the deduction against all types of income is not available to the extent the deduction for U.S. Armed Forces retirement benefits, Railroad Retirement Act benefits or pension benefits from Michigan National Guard Services is claimed.

**Tier 3:** For a taxpayer born after 1952, there is no pension deduction in 2013. All taxpayers in Tier 3 are eligible for the \$20,000 single/\$40,000 joint standard deduction upon reaching age 67.

# INDIVIDUAL INCOME TAX FOR RETIREMENT BENEFITS - EFFECTIVE TAX YEAR 2013

*For joint returns, the age of the oldest spouse determines the age category that will apply to the pension and retirement benefit of both spouses, regardless of the age of the younger spouse.*

| Taxpayers born<br>before 1946<br>(Tier 1)   | Taxpayers born<br>1946 through 1952<br>(Tier 2)<br><b>Before the taxpayer reaches age 67</b>  | Taxpayers born<br>after 1952<br>(Tier 3)<br><b>Before the taxpayer reaches age 67</b>  |
|---|---|--|
| <ul style="list-style-type: none"> <li>• Social Security is exempt.</li> <li>• Senior citizen subtraction for interest, dividends, and capital gains up to \$10,767 for single filers and \$21,534 for joint filers.</li> <li>• Public pensions exempt.</li> <li>• For 2013 private pensions, subtract up to \$48,302 for single filers and \$96,605 for joint filers.</li> </ul> | <ul style="list-style-type: none"> <li>• Social Security is exempt.</li> <li>• Railroad pension is exempt.</li> <li>• Military/Michigan National Guard pension is exempt.</li> <li>• Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.</li> <li>• Public and private pension limited subtraction of \$20,000 for single filers or \$40,000 for joint filers.</li> <li>• Pensions from governmental agencies not covered by the Social Security Act. \$35,000 for single filer, \$55,000 for joint filers, or \$70,000 for joint filers if both spouses worked for an “uncovered” agency.</li> </ul>   | <ul style="list-style-type: none"> <li>• Social Security is exempt.</li> <li>• Railroad pension is exempt.</li> <li>• Military/Michigan National Guard pension is exempt.</li> <li>• Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.</li> <li>• Not eligible for public or private pension subtraction.</li> <li>• At age 62, pensions from governmental agencies not covered by the Social Security Act \$15,000 for single or joint filer or \$30,000 for joint filers if both spouses worked for an “uncovered” agency.</li> </ul>  |
|   | After the taxpayer reaches<br>Age 67<br>(will first occur in 2013)  | After the taxpayer reaches<br>Age 67<br>(will first occur in 2020)   |
|   | <ul style="list-style-type: none"> <li>• Social Security is exempt.</li> <li>• Railroad pension is exempt (see below).</li> <li>• Military/Michigan National Guard pension is exempt (see below).</li> <li>• Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.</li> <li>• Standard deduction:                             <ul style="list-style-type: none"> <li>– Subtraction against all income of \$20,000 for single filers and \$40,000 for joint filers.</li> <li>– Subtraction increased to \$35,000 for single filers and \$55,000 for joint filers with pensions from governmental agencies not covered by the Social Security Act, or to \$70,000 for joint filers if both spouses worked for an “uncovered” agency.</li> <li>– Not eligible for the standard deduction if a Military subtraction or Michigan National Guard or railroad pension subtraction is claimed.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.</li> <li>• Not eligible for public or private pension subtraction.</li> <li>• Income exemption election:                             <ul style="list-style-type: none"> <li>– <b>Elect</b> exemption against all income of \$20,000 for single filers or \$40,000 for joint filer,<br/><b>Note:</b> No exemption for Social Security, Military, or Michigan National Guard or railroad retirement. No personal exemptions</li> </ul> <p style="text-align: center;"><b>OR</b></p> <li>– <b>Elect</b> to exempt Social Security, Military, and Michigan National Guard and railroad retirement. May claim personal exemptions.</li> </li></ul> |

## **Unlimited Public Pension Subtraction**

Applies only to retirees born before 1946 (Tier 1).

## **Michigan and Federal Public Pensions**

Federal or Michigan public pensions are no longer totally exempt. The amount that may be deducted depends on the year of birth for a retiree who is single filer or on the year of birth of the oldest spouse for joint filers.

Public pensions include benefits received from the federal civil service, State of Michigan, political subdivisions of Michigan, military retirement, and railroad retirement. If the requirements of the plans under Step 1 are met, these distributions may be deductible depending on the age of the filers.

## **Public Pensions: Railroad Retirement and Pension Benefits**

The taxable amount of Railroad Pension income included in AGI may be subtracted on the Michigan return by all taxpayers, regardless of the year of birth.

## **Public Pensions From Other States**

Michigan allows a pension subtraction for public pensions earned in other states by Tier 1 retirees if the other state permits a deduction, or exemption of a retirement or pension benefit received from a Michigan public retirement system. To the extent included in AGI, Michigan allows the **greater of:**

- \$48,302 for a single return or \$96,605 for a joint return for the 2013 tax year (private pension limits)

**OR**

- Amount allowed as a deduction or exemption by the other state to its residents on public pensions received from Michigan.

For most public pensions from other states, the Michigan subtraction for Tier 1 retirees will be limited to the private pension limits of \$48,302 or \$96,605. However, there are 14 states that allow a complete exemption for public pensions earned in Michigan and one state that has a higher pension deduction than Michigan's private pension limits.

The following states allow a 100 percent deduction or exemption for their residents who receive Michigan public pensions. Therefore, **for Tier 1 retirees (those born before 1946)**, the full amount of the pension distribution included in AGI is subtractable on the Michigan return for **public** pensions received by Michigan residents from the following states:

|               |               |
|---------------|---------------|
| Alaska        | New Hampshire |
| Florida       | Pennsylvania  |
| Hawaii        | South Dakota  |
| Illinois      | Tennessee     |
| Massachusetts | Texas         |
| Mississippi   | Washington    |
| Nevada        | Wyoming       |

For all other public pensions from states other than the 14 with complete exemptions, the Michigan private pension limits will be the maximum subtraction allowed for Tier 1 retirees. For all other retirees the pension limitations are based solely on date of birth and there is no difference between a private and a public pension.

### **Combined Public and Private Pension**

Applies only to retirees born before 1946 (Tier 1)

An individual with a pension from both public and private sources must reduce the maximum allowable subtraction for the private pension by any public, military, railroad, and Michigan National Guard pension distribution.

### **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 2013 tax year is \$48,302 on a single return and \$96,605 for a joint return.

The following table outlines the annual maximum pension deductions:

| <b><u>Tax Year</u></b> | <b><u>Single Return</u></b> | <b><u>Joint Return</u></b> |
|------------------------|-----------------------------|----------------------------|
| 2009                   | 45,120                      | 90,240                     |
| 2010                   | 45,120                      | 90,240                     |
| 2011                   | 45,842                      | 91,684                     |
| 2012                   | 47,309*                     | 94,618*                    |
| 2013                   | 48,302*                     | 96,605*                    |

**\*Only applies to retirees born before 1946 (Tier 1).  
For all other retirees lower limits apply.**

## Pension Subtraction Examples

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

Sam is retired and single and born before 1946. He has a State of Michigan pension of \$33,000 and a private pension of \$165,000. His total pension deduction for 2013 is determined as follows:

|                                       |                 |
|---------------------------------------|-----------------|
| Maximum Private Pension Deduction     | \$48,302        |
| Less: Public Pension                  | <u>-33,000</u>  |
| Allowable Private Pension Subtraction | \$ 15,302       |
| Sam's total pension subtraction is:   |                 |
| Public                                | \$33,000        |
| Private                               | 15,302          |
| <b>Total</b>                          | <b>\$48,302</b> |

If Sam's public pension was more than \$48,302, 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 2013, 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 2013, 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 2013 distribution is determined as follows:

$$\$100,000/\$400,000 \times \$25,000 = \$6,250 \text{ (distribution attributed to unmatched distribution)}$$

**\$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.**

## Conversion of Roth IRAs

A Roth IRA is treated differently than a traditional IRA under the IRC. Under a traditional IRA, the contributions are excluded from AGI but the distributions are taxed. Under a Roth IRA the reverse occurs; the contributions are taxed and the distributions are not.

Contributions to a Roth IRA are not tax exempt and are subject to the Michigan income tax to the extent the contributions are included in federal AGI.

A conversion from a regular IRA to a Roth IRA is subject to Michigan income tax to the extent the conversion is included in federal AGI. However, if an individual is 59½ when the conversion occurs, the individual may deduct the conversion as a pension deduction within the statutory limits for deducting pension income.

A conversion from a regular IRA to a Roth IRA is subject to Michigan income tax for a taxpayer moving into and domiciled in Michigan to the extent the conversion is included in AGI. A taxpayer moving from Michigan to another state is not taxed on the amount of a conversion from a regular IRA to a Roth IRA during the years the taxpayer is not domiciled in Michigan.

A qualified distribution from a Roth IRA is not subject to Michigan income tax because the distribution is not included in federal AGI.

A conversion from a regular IRA to a Roth IRA is included in total household resources in the year the income is included in the taxpayer's federal AGI. The amount of a qualified distribution in excess of a taxpayer's contributions (conversion or regular contributions) must be included in total household resources. A nonqualified or taxable distribution from a Roth IRA must be included in total household resources to the extent it is included in a taxpayer's federal AGI. Investment losses from the liquidation of a Roth IRA are not allowed in total household resources.

|  |
|--|
| <p><b>Note: All pension income must be included in total household resources except for any nondeductible contributions that are included in the pension distribution and any amounts that are rolled over into other plans. Generally, only the taxable portion of the pension benefits from the 1099-R is included in total household resources.</b></p> |
|--|

## 2013 Pension and Retirement Subtraction Table for Tier 1 Retirees

The 2013 deductible retirement and pension benefits are limited to the lesser of the amount included in AGI or the amounts shown below.

| <b><u>Source of Retirement Benefits</u></b>   | <b><u>Single</u></b>   | <b><u>Joint</u></b>  |
|---|--|--|
| U.S. Civil Service                            | Amount included in AGI   | Amount included in AGI   |
| State of Michigan                             | Amount included in AGI   | Amount included in AGI   |
| Michigan political subdivisions               | Amount included in AGI   | Amount included in AGI   |
| Private                                       | \$48,302   | \$96,605   |
| Public pensions (from other states)           | \$48,302 or reciprocal limit, whichever is greater   | \$96,605 or reciprocal limit, whichever is greater   |
| Qualified senior citizen retirement annuities | \$48,302   | \$96,605   |
| Public and private                            | Limited to public pension or \$48,302, whichever is greater (cannot exceed actual qualified distributions received). | Limited to public pension or \$96,605, whichever is greater (cannot exceed actual qualified distributions received). |

## Form 1099-R Distribution Codes

Recipients of a pension distribution receive Form 1099-R. There is a box on Form 1099-R titled “Distribution code(s).” Look in the “Distribution code(s)” box for the number that describes the condition under which the pension or retirement benefit was paid.

| <b><u>1099-R<br/>Dist. Code</u></b> | <b><u>Description</u></b>   | <b><u>Is the condition eligible for Michigan tax<br/>exemption? (Dollar and date of birth<br/>limits may still apply.)</u></b>  |
|-------------------------------------|---|---|
| <b>1</b>                            | Early distribution, no known exception  | No  |
| <b>2</b>                            | Early distribution, exception applies   | No, <b>unless:</b> <ul style="list-style-type: none"> <li>• Part of a series of substantially equal periodic payments made for the life of the employee or the joint lives of the employee and employee’s beneficiary.</li> <li>• Early retirement under the terms of the plan.</li> </ul>  |
| <b>3</b>                            | Disability  | Yes   |
| <b>4</b>                            | Death   | <ul style="list-style-type: none"> <li>• Yes, <b>for surviving spouse only</b> and only if the decedent would have also qualified for a normal distribution under Distribution Code 7 at the time of death. This may be subject to limitations based on the year of birth of the decedent.</li> <li>• No, <b>for all other beneficiaries.</b></li> <li>• 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.</li> </ul> |
| <b>5</b>                            | Prohibited transaction  | No  |
| <b>6</b>                            | Section 1035 exchange: tax-free exchange of life insurance, endowment insurance, and annuity contracts  | No  |
| <b>7</b>                            | Normal distribution: normal distribution from a plan; distribution from a traditional IRA if the participant is at least 59½; Roth conversion if the participant is at least age 59½; or distribution from a life insurance, annuity, or endowment contract | Yes   |
| <b>8</b>                            | Taxable excess contribution plus earnings/excess deferrals (and/or earnings)  | No  |
| <b>9</b>                            | Cost of current life insurance protection   | No  |

## DEFERRED COMPENSATION

Distributions received from deferred compensation plans which allow the employee to set the amount of compensation to be deferred and do not prescribe retirement age or years of service are treated as ordinary income. Deferred compensation distributions are usually **not** considered pension income and may **not** be subtracted on the Michigan return.

Federal law, 4 USC 114, prohibits a state from taxing certain deferred compensation distributions received by a nonresident. Therefore, nonresidents are not subject to Michigan income tax on distributions from deferred compensation plans as defined in IRC Sections 401(k), 457, and 3121(v)(2)(c).

## INTEREST, DIVIDENDS, AND CAPITAL GAINS DEDUCTION FOR SENIOR CITIZENS BORN BEFORE 1946

Senior citizens born before 1946 may take a deduction for interest, dividends, and capital gains up to \$10,767 for a single return and \$21,534 for a joint return for the 2013 tax year. The deduction will be adjusted by the percent increase in the U.S. Consumer Price Index for future years. This maximum deduction must be reduced by the amount of deduction taken for pension and retirement income.

**Example: Step 1:** James and Joanne are retired senior citizens, James was born before 1946. They file a joint income tax return. A partial listing of their income is as follows:

|                 |          |
|-----------------|----------|
| Pension Income  | \$ 4,000 |
| Capital Gains   | 12,000   |
| Dividend Income | 1,800    |
| Interest Income | 3,800    |

**Step 2:** Calculation of interest, dividend, and capital gains deduction:

|                             |              |
|-----------------------------|--------------|
| Maximum Deduction           | \$21,534     |
| Less: Pension Subtraction   | <u>4,000</u> |
| Maximum Allowable Deduction | \$17,534     |

**Step 3:** Total interest, dividends, and capital gains = \$17,600

**Step 4:** Use the **lesser** of the total interest, dividends, and capital gains (\$17,600) or the maximum allowable deduction (\$17,534).

**Step 5:** The interest, dividends, and capital gains deduction for James and Joanne is **\$17,534**.

**Note:** The term “senior citizen” as used in this section, refers to a person 65 years of age or older or an un-remarried surviving spouse of an individual who was 65 years of age or older at the time of death. Beginning in 2012, this deduction is available only to taxpayers born before 1946 or the surviving spouse.

## TAX INFORMATION

### TAX RATE

The tax rate for 2013 is 4.25%.

For prior years use the following rates:

- 2012 – 4.33%
- 2011 – 4.35%
- 2010 - 4.35%
- 2009 - 4.35%

### VOLUNTARY CONTRIBUTIONS

The taxpayer can make contributions to certain funds listed on Form 4642, *Voluntary Contribution Schedule*. These contributions are treated as additional taxes. Any contributions will increase tax due or reduce any refund.

### USE TAX

The taxpayer must use Worksheet 1, page 8 in the instruction booklet to calculate the use tax and enter the amount of use tax due on line 23 of the Form MI-1040.

## TAX CREDITS (NONREFUNDABLE)

### Reminder of 2012 Changes

Beginning in 2012, the following nonrefundable credits became **unavailable**:

- City Income Tax Credit
- Public Contribution Credit
- Community Foundation Credit
- Homeless Shelter/Food Bank Credit
- College Tuition and Fees Credit
- Vehicle Donation Credit
- Individual or Family Development Account Credit
- Renewable Energy Surcharge Credit

### What Is a Nonrefundable Tax Credit

A tax credit is a direct reduction of the tax and is based on a certain formula. Any excess of the credits listed below over tax due is not refundable.

## Out-of-State Tax Credit

A Michigan resident is allowed a credit for income tax paid to another government unit(s) on income earned while a resident of Michigan and taxed by Michigan.

**Note: Credit is not allowed for tax imposed by another state on business income apportioned to that state.**

For a **Michigan resident** the allowable credit for tax imposed by:

1. **Another state** is the lesser of:

- The actual tax imposed by the other state governmental unit on salaries/wages earned in that state, **or**
- The percentage of Michigan tax due on salaries/wages earned in the other state.

$$\frac{\text{Tax Imposed on Out-of-State Income Subject to Tax by Both States}}{\text{Total Income Subject to Michigan Tax (Line 14)}} \times \text{by Michigan (Line 17)}$$

To claim this credit, a return must be filed with the other state and a copy of the other state's return attached to Form MI-1040.

**Exceptions:** The credit is not allowed on salaries and wages earned in Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin since this income is not taxable by these states (based on reciprocity agreement). However, the credit is allowed if they pay a city or county tax in a reciprocal state.

The credit is not allowed on salaries and wages which are subtracted as "Income Attributable to Another State" (by a part-year or nonresident) since no Michigan income tax is calculated on this income.

2. A **Canadian province** is the lesser of:

- The Michigan tax due on Canadian income taxed by Michigan, **or**
- The portion of provincial tax not claimed as credit for U.S. income tax on income derived from Canadian sources also subject to Michigan income tax.

To claim this credit, file *Michigan Resident Credit For Tax Imposed By A Canadian Province* (Form 777). Instructions are included. Attach copies of Canadian federal Individual Income Tax Return, Canadian Form T-4, U.S. Form 1116, Computation of Foreign Tax Credit, and U.S. Form 1040.

## Michigan Historic Preservation Credit

For plans approved before 2012, a taxpayer is allowed a nonrefundable credit of 25 percent of the qualified expenditures made for the rehabilitation of a historic resource pursuant to a rehabilitation plan. The rehabilitation plan and completed rehabilitation of the historic resource must be certified by the State Historic Preservation Office. Any unused portion of the credit may be carried forward for a maximum of ten years. For more information on how to qualify, visit the State Historic Preservation Office at [www.michigan.gov/shpo](http://www.michigan.gov/shpo) or call (517) 373-1630.

## TAX CREDITS (REFUNDABLE)

### Reminder of 2012 Changes

Beginning in 2012 the following refundable credits became **unavailable**:

- Energy Efficient Qualified Home Improvement Credit
- Stillbirth Credit
- Adoption Credit

Other changes to refundable credits for 2012 and beyond include:

- Substantial changes to the Homestead Property Tax Credit (see Chapter 3)
- Earned income credit has been reduced from 20% to 6% of federal EITC

### Homestead Property Tax Credit

This credit is covered in Chapter 3 of this Manual.

### Farmland Preservation Tax Credit

This credit is for taxpayers who have entered into a Farmland Development Rights Agreement with the Department of Agriculture. To receive this credit, complete Form MI-1040CR-5 and attach it to Form MI-1040.

When a Farmland Preservation Tax Credit is claimed, the taxpayer must attach the following items to Form MI-1040:

1. Property tax bills for 2013, with the agreement number listed on each of the tax bills and a receipt verifying payment of 2012 or 2013 property taxes. (Failure to show proof of payment will result in a check jointly payable to the taxpayer and the county treasurer.)
2. If ownership of the agreement is other than individual, appropriate distribution statement or partnership schedules.

Taxpayers who claim a farmland preservation tax credit may also claim a credit for a homestead property tax credit using the same taxes. However, total credits cannot exceed property taxes levied for the tax year.

## **Earned Income Tax Credit**

**Beginning January 1, 2008, a taxpayer may claim a refundable credit against the income tax for an amount equal to a percentage of the credit the taxpayer is allowed to claim as a credit** under IRC Section 32 (i.e., the Earned Income Tax Credit (EITC)) for a tax year on a return filed under the Income Tax Act for the same year. For tax years beginning after December 31, 2011, an eligible taxpayer may claim a credit of 6 percent of his or her federal EITC.

## **Income Tax Withheld**

This appears on the taxpayer's W-2 statement under "Michigan Tax Withheld." Be sure to include withholding for each W-2. Complete Schedule W and attach it to the return. Note that withholding can be shown on other forms such as W-2G and 1099s, as well as flow-through withholding. Do not attach W-2 statements to the return.

## **Claim of Right Doctrine**

The Michigan Income Tax act allows a refundable credit for tax paid on income in an earlier year because the taxpayer thought he or she had an unrestricted right to it, but had to repay that amount in the current year. For example, if the taxpayer received the money in 2010 and had to repay it in 2013, he or she may claim a credit on the 2013 return for the tax paid in 2010 on that income.

The amount of the repayment must have been deducted on U.S. Schedule A or claimed as a credit on U.S. Form 1040 to claim a credit on the Michigan return. If the repayment was deducted in arriving at AGI, no additional credit is allowed on the Michigan return.

To compute the credit, multiply the amount that was repaid in 2013 by the tax rate in effect in the year the money was received and included in AGI. Then add the amount of the credit to the Michigan tax withheld total from Schedule W and include it on the withholding line on Form MI-1040. Write "Claim of Right" next to the withholding line.

The following documents must be attached to Form MI-1040:

1. Schedule showing the computation of the Michigan credit
2. Proof of the repayment
3. Portion of the federal return showing the deduction or credit claimed under the claim of right.

## **Estimated Payments/Credit Forward**

Ask the taxpayer if any estimated payments were made for the tax year or if there is a credit forward to be applied from the previous tax year. Any taxpayer who expects his or her tax liability for the year to exceed \$500 after withholding and tax credits should file Form MI-1040ES and make quarterly estimated payments for the year.

CHAPTER 3  
HOMESTEAD PROPERTY TAX CREDIT  
FORM MI-1040CR, FORM MI-1040CR-2

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GENERAL INFORMATION

**INTRODUCTION**

Beginning in 2012, the homestead property tax credit was changed in a few major ways, as described below:

- A shift from total household income to total household resources (THR), which does not allow the inclusion of any net business loss after netting all business income and loss, net rent or royalty loss, or any carryback or carryforward of a net operating loss (NOL).
- A lower phase-out level. The property tax credit is completely phased-out once total household resources exceed \$50,000.
- A cap on the taxable value of a homestead of \$135,000 for homeowners. (The taxable value cap only applies to the residential portion of farms. The taxable value cap does not apply to rented homesteads.)
- Some senior claimants may have the credit reduced from 100 percent to 60 percent.

A homestead property tax credit is given by the State of Michigan to assist residents in paying their property taxes. Property taxes are taxes paid by a homeowner directly to a Michigan city, township, or county, or that portion of rent paid to a landlord that represents property tax on an apartment, duplex, home, or other rental unit.

**Note: The taxes do not have to be paid to the taxing authority in order to claim the homestead property tax credit. The credit is based on taxes levied for the tax year.**

**CREDIT REFUND**

The taxpayer will be refunded the total computed credit unless he or she has a liability for:

- Income tax, business tax, etc.
- Other State agencies
- Friend of the Court
- Third-party liabilities.

If the taxpayer has a liability, the credit will be used to offset the amount due. However, should the credit be greater than the liability, the balance of the credit will be refunded.

## INSTRUCTIONS

This chapter will often refer to the “instructions.” These are the instruction booklets used to prepare the homestead property tax credit forms MI-1040CR and MI-1040CR-2. Read the instruction booklets. The following information will recap and/or further explain the instructions.

### WHO MAY CLAIM A CREDIT

A credit may be claimed for a person who:

1. Was a Michigan resident for at least six months of the year, **and**
2. Owned or rented and occupied a Michigan homestead on which either property tax or a service fee was levied, **and**
3. Has property taxes that exceed 3.5 percent of THR **and**
4. Has THR that does not exceed \$50,000, **and**
5. For a homeowner, has a taxable value on their homestead that does not exceed \$135,000 (with an exception for unoccupied farmland classified as agricultural, discussed on page 55).

### HOMESTEADS THAT DO NOT QUALIFY

A homestead property tax credit may **not** be claimed for:

1. Rent paid to a city housing project if no property taxes or service fees are paid by the property owner.
2. Rent or property taxes on a summer cottage.
3. Rent or property taxes on property not located in Michigan.
4. Rent paid by anyone who is not a domiciled resident of Michigan.
5. Property taxes on a homestead with a taxable value greater than \$135,000 (with an exception for unoccupied farmland classified as agricultural, discussed on page 55).
6. Homesteads with an exemption from paying property taxes for the tax year.

## **CALCULATION OF THE CREDIT**

### **Homeowner**

The credit is equal to a percentage (60% - 100%) of the amount that property taxes exceed 3.5 percent of THR, limited to \$1,200.

### **Renter**

The credit is equal to a percentage (60% - 100%) of the amount that 20 percent of the annual rent exceeds THR, limited to \$1,200 (see exception under Renters on page 56 for property subject to a service fee in lieu of property taxes).

### **Calculation**

The calculation of the credit begins with the amount that property taxes or 20 percent of the annual rent exceeds 3.5 percent of THR. A credit-phase out applies for all claimants once THR exceeds \$41,000. (See the Phase-Out Chart on page 50.) No credit is allowed for claimants with THR exceeding \$50,000.

1. For most filers, the credit is equal to 60 percent of the amount that property taxes (or 20 percent of annual rent) exceeds 3.5 percent of THR, limited to \$1,200, if THR is \$41,000 or less. The credit-phase out applies once THR exceeds \$41,000. (See the Phase-Out Chart on page 50.) The credit is completely phased out once THR exceeds \$50,000.
2. For a claimant who, at the end of the tax year, is deaf, blind, hemiplegic, paraplegic, quadriplegic, or “totally and permanently disabled”, he or she will receive 100 percent of the credit, limited to \$1,200, if THR is \$41,000 or less. “Totally and permanently disabled” status stops when the claimant reaches the age of 66. The credit phase-out applies once THR exceeds \$41,000. (See the Phase-Out Chart on page 50.) The credit is completely phased out once THR exceeds \$50,000.
3. For a senior citizen claimant age 65 or older at the end of the tax year (at least one spouse is 65 years of age or older), the amount that can be claimed depends on the senior claimant’s THR:
  - A. For senior claimants whose THR is \$21,000 or less, 100 percent of the credit can be claimed, limited to \$1,200.
  - B. For senior claimants whose THR is \$21,001 to \$30,000, the credit is reduced by 4% for each \$1,000 of total household resources in excess of \$21,000 and up to \$30,000. The \$1,200 maximum then applies. (See the Senior Credit Reduction on page 49.)
  - C. For senior claimants whose THR is \$30,001 to \$50,000, 60 percent of the credit can be claimed, limited to \$1,200.

D. For senior claimants whose THR exceeds \$41,000, the credit phase-out applies after the \$1,200 limitation. (See Phase-Out Chart on page 50.)

| <b>SENIOR CREDIT REDUCTION CHART</b>   |                                     |
|--|-------------------------------------|
| Senior claimants are entitled to a 100 percent credit if their total household resources is \$21,000 or less. The credit is reduced by four percent once total household resources exceeds \$21,000. |                                     |
| <u>Total Household Resources</u>   | <u>Percentage of Credit Allowed</u> |
| \$21,000 - or less   | 100% (1.00)                         |
| 21,001 - 22,000  | 96% (0.96)                          |
| 22,001 - 23,000  | 92% (0.92)                          |
| 23,001 - 24,000  | 88% (0.88)                          |
| 24,001 - 25,000  | 84% (0.84)                          |
| 25,001 - 26,000  | 80% (0.80)                          |
| 26,001 - 27,000  | 76% (0.76)                          |
| 27,001 - 28,000  | 72% (0.72)                          |
| 28,001 - 29,000  | 68% (0.68)                          |
| 29,001 - 30,000  | 64% (0.64)                          |
| 30,001 - 50,000  | 60% (0.60)                          |

**PERCENT OF TAXES NOT REFUNDABLE - TOTAL HOUSEHOLD RESOURCES OF \$6,000 OR LESS**

For most filers, 3.5 percent of THR is subtracted from the annual property tax or 20 percent of annual rent to arrive at the credit. However, if the claimant or spouse is 65 or older or is paraplegic, quadriplegic, hemiplegic, deaf, or is totally and permanently disabled or an unremarried spouse of an individual 65 or older, **and** the THR is \$6,000 or less, use the percentage found in the table below.

| <b>THR</b>           | <b>% of<br/><u>THR</u></b> |
|----------------------|----------------------------|
| \$3,000 or less      | 0%                         |
| \$3,001 - \$4,000    | 1%                         |
| \$4,001 - \$5,000    | 2%                         |
| \$5,001 - \$6,000    | 3%                         |
| Greater than \$6,000 | 3.5%                       |

## MAXIMUM CREDIT

The maximum credit is \$1,200, even if the calculated amount is greater than \$1,200. The limit is imposed before the phase-out.

## PHASE-OUT

For taxpayers whose THR exceeds \$41,000, the computed credit (maximum \$1,200) must be reduced by 10 percent for each thousand or portion of thousand over \$41,000 and up to \$50,000. No credit is allowed for taxpayers whose THR is above \$50,000.

| <u>PHASE-OUT CHART</u>           |                          |
|----------------------------------|--------------------------|
| <u>Total Household Resources</u> | <u>Reduction Percent</u> |
| \$41,000 - or less               | 100% (1.00)              |
| 41,001 - \$42,000                | 90% (0.90)               |
| 42,001 - 43,000                  | 80% (0.80)               |
| 43,001 - 44,000                  | 70% (0.70)               |
| 44,001 - 45,000                  | 60% (0.60)               |
| 45,001 - 46,000                  | 50% (0.50)               |
| 46,001 - 47,000                  | 40% (0.40)               |
| 47,001 - 48,000                  | 30% (0.30)               |
| 48,001 - 49,000                  | 20% (0.20)               |
| 49,001 - 50,000                  | 10% (0.10)               |
| 50,001 - above                   | No Credit                |

**Example 1:** A senior citizen has total household resources of \$45,220 and property taxes of \$2,500. The property taxes exceed 3.5 percent of total household resources by \$917. The senior citizen's total household resources exceeds \$30,000, therefore the credit is reduced from 100 percent to 60 percent, or \$550. The phase-out then applies and will further reduce the \$550 credit to \$275 ( $\$550 \times 0.50$ ).

**Example 2:** A claimant has total household resources of \$48,500 and property taxes of \$4,000. The property taxes exceed 3.5 percent of total household resources by \$2,302. The credit is first reduced to 60 percent or \$1,381. The credit is then limited to \$1,200, the maximum allowed. After the \$1,200 limit is applied, the phase-out further reduces the credit to \$240 ( $\$1,200 \times 0.20$ ).

## WHEN TO FILE CLAIM

Claims must be filed within four years from the due date of Form MI-1040.

## **WHICH FORM TO USE (MI-1040CR OR MI-1040CR-2)**

Use Form MI-1040CR, *Homestead Property Tax Credit Claim*, for:

- General claimant.
- Paraplegic, quadriplegic, hemiplegic, deaf, blind, or totally and permanently disabled persons.
- Senior citizen – regular method.
- Senior citizen - alternate rent credit (rent larger than 40 percent of THR).
- Senior citizen - homeowner over age 105 optional method.

Use Form MI-1040CR-2, *Homestead Property Tax Credit Claim for Veterans and Blind People*, for:

- Veteran with a service-connected disability or veteran’s surviving spouse, a surviving spouse of a veteran deceased in service, or a veteran of wars before World War I.
- Person in active military whose total household resources is \$7,500 or less.
- Pensioned veteran or his/her surviving spouse whose total household resources is \$7,500 or less.
- Surviving spouse of a nondisabled or non-pensioned veteran of the Korean War, World War II, or World War I whose total household resources is \$7,500 or less.
- Blind person who owns his or her home.

Claimants eligible for the credit for veterans and blind people should prepare both the MI-1040CR and the MI-1040CR-2. File the credit claim that results in a larger credit.

## **IDENTIFICATION**

### **SOCIAL SECURITY NUMBER**

Both SSNs must be included on the form for married filing jointly and married filing separately. This claim must be filed jointly unless there is a legal separation **and** separate homesteads are maintained.

### **SCHOOL DISTRICT CODE**

Obtain the code number from page 60-61 of the instruction booklet.

For residents, enter the code for the school district that the taxpayer lived on December 31, 2013. For part-year residents who did not live in Michigan as of December 31, 2013, enter “10000” in the school district code box.

## AGE 65 OR OLDER

One spouse must be 65 or older on December 31, 2013, to qualify. The un-remarried spouse, regardless of age, of a person who was 65 or older at the time of death also qualifies as a senior.

## DISABILITY DEFINITIONS

Use the following definitions to determine if the taxpayer is eligible to check box 5b of Form MI-1040CR:

- Deaf. An individual whose hearing is totally impaired or whose hearing, with or without amplification, is so seriously impaired that the primary means of receiving spoken language is through other sensory input, including but not limited to lip reading, sign language, finger spelling, or reading.
- Blind. Defined as a permanent impairment of both eyes of the following status: central visual acuity of 20/200 or less in the better eye with corrective glasses, or central visual acuity of more than 20/200 if there is a field defect in which the peripheral field has contracted to such an extent that the widest diameter of visual field subtends an angular distance of not greater than 20 degrees in the better eye.
- Hemiplegic. An individual who has paralysis of one side of the body.
- Paraplegic. An individual who has paralysis of the lower half of the body.
- Quadriplegic. An individual who has paralysis of both arms and both legs.
- Totally and permanently disabled. An individual who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than 12 months. For an additional reference, see 42 U.S.C. 416.

Support for the totally and permanently disabled exemption is the receipt of any of the following types of income:

- Social Security Disability benefits (SSDI)
- Supplemental Security Income (SSI) disability benefits
- Veterans' Administration (VA) disability retirement payments

A taxpayer who did not receive any of the above income in the tax year may be required to furnish a physician's statement to certify total and permanent disability.

**Note: The credit calculation for totally and permanently disabled claimants does not apply for a claimant who is 66 years of age or older at the end of the tax year. 42 U.S.C 416**

**Example:**

Jacob is 66, but before he turned age 66 he was received SSDI for being totally and permanently disabled. Assuming Jacob is not deaf, blind, paraplegic, quadriplegic, or hemiplegic, Jacob is no longer considered a disabled claimant. He is not eligible for the 100 percent credit calculation because the normal retirement age of individuals born between 1943 and 1954 is 66. Since Jacob has reached normal retirement age, he is no longer receiving disability income but is instead considered a retired senior. **Note: Although Jacob's condition did not change when he reached the age of 66, he may no longer claim an exemption for being totally and permanently disabled.**

**FILING STATUS**

Check the applicable box for the claimant's filing status. If the claimant filed a joint federal return, they must file a joint property tax credit. Married couples who file married filing separate must include the total household resources of both spouses unless they filed separate federal returns and maintained separate homesteads. If a claimant filed their federal return as head of household or qualifying widow(er), the claimant must file the property tax credit as single or, if married, married filing separately. For more instructions on filing status, see Special Situations on page 72

Same-sex couples who file a joint or married separate federal income tax return must continue to file income tax returns for Michigan with each individual using the single filing status. Michigan has defined marriage in the Michigan Constitution as a union of one man and one woman. Each individual who has income attributable to Michigan and who has file a joint return with the IRS as a same-sex couple should separately report adjusted gross income (AGI) for Michigan income tax as a single filer. Each individual should recalculate their federal adjusted gross income as if they had filed a single federal return, and be aware that filing as single may affect the filer's eligibility for Michigan tax credits as well.

**Note: If married taxpayers filed a Michigan income tax return (Form MI-1040), it may be possible for the filing status on the property tax credit claim to be different than the filing status checked on the income tax return, Form MI-1040.**

**RESIDENCY STATUS**

Check all applicable boxes on line 7. If one spouse was a resident and the other spouse was a nonresident or part-year resident, check the appropriate box for each spouse. If either spouse was a part-year resident, enter the dates of Michigan residency.

## COMPUTATION

This section identifies the allowable taxes, rent, and Total Household Resources (THR), which are the key figures needed to calculate the credit.

Line references below in sections titled “Property Owner” through “Senior Citizen - Homeowner Age 105 or Older in 2013” refer to lines on the 2013 Form MI-1040CR, *Homestead Property Tax Credit Claim*.

Instructions on completing the 2013 Form MI-1040CR-2, *Homestead Property Tax Credit Claim for Veterans and Blind People*, can be found in the section beginning on page 68.

### PROPERTY OWNER

#### Property Taxes

The taxable value (TV) and property taxes must be entered on lines 9 and 10 of the return. The TV can be found on the property tax statement or it can be obtained from the local tax assessor.

#### Homestead Property Owner

Determine that the property is occupied by the owner. Remember:

1. Claim only the taxes **billed** for the year of claim regardless of when tax was paid.
2. Administrative fees of up to 1 percent of the taxes may be included in the amount of taxes used to compute the credit.
3. Special assessments may **not** be included in taxes unless special assessments are based on the TV, are levied using a uniform millage rate, and are applied to the entire taxing jurisdiction. Public Act 28 of 2003 allows an assessment that is levied township-wide but not on a village within the township to be included in the credit calculation if the assessment meets the first two criteria and is for police, fire, or advanced life support.
4. Delinquent taxes paid in 2013 may **not** be included in the amount of taxes used to compute the credit for 2013.
5. If the homestead was bought or sold during 2013, the taxes must be prorated for the time each homestead was occupied.

### **Farmland Property Owner**

A claimant is entitled to a homestead property tax credit on farmland under the following conditions; however, if the taxable value of the homestead excluding the taxable value of the unoccupied farmland classified as agricultural exceeds \$135,000, the claimant is not eligible for the homestead property tax credit.

- If gross receipts from farming are greater than claimant's THR, all property taxes on farmland may be claimed for credit, including taxes on unoccupied land. A claimant may not include taxes on land that is not adjacent or contiguous to his or her home and is rented or leased to another person.
- If gross receipts from farming are less than claimant's THR, taxes are limited to property taxes on farmland adjacent and contiguous to the home providing claimant lived on the land ten years or more, **or**
- If claimant has not lived on the land for ten years and the gross receipts from farming are less than THR, only the taxes on the home and five acres of adjacent or contiguous farmland may be claimed for credit. The township assessor can give the claimant this information.

### **Home Owner, Full-Year**

Indicate taxable value (TV) on line 9 and all allowable property taxes on line 10.

### **Home Owner, Part-Year**

Property taxes must be prorated if the claimant was a part-year resident **or** a full-year resident who bought or sold a home during the year. The total time claimed for all homesteads must not exceed 12 months or 365 days, and the taxes must be prorated for the time the claimant owned and occupied each homestead. Part-year residents are limited to the number of days they actually lived in Michigan. They must live in Michigan for at least **six months to qualify**. Complete lines 45 through 51 on page 3 of the return. Use both columns if necessary. Then carry the figure on line 51 to line 10.

**Note: If either of the homesteads owned has a taxable value that exceeds \$135,000, the property taxes on that homestead may not be included on line 10.**

**Example:**

Raymond Smith sold his homestead (House A) on March 31. He occupied it until March 31. On April 1, he moved into a new homestead (House B) which he purchased. Property taxes billed for that year are as follows:

| <u>Taxing Authority</u> | <u>Date Billed</u> | <u>House A</u> | <u>House B</u> |
|-------------------------|--------------------|----------------|----------------|
| City                    | July               | \$600          | \$ 1,050       |
| County                  | November           | <u>130</u>     | <u>235</u>     |
| Total                   |                    | <u>\$730</u>   | <u>\$1,285</u> |

Mr. Smith occupied House A for 91 days and House B for 275 days in the tax year. He is entitled to use the following percentage of property taxes on each house for the credit:

| <u>House A</u>                                    | <u>House B</u>                                     |
|---|--|
| $\frac{91 \text{ Days}}{365 \text{ Days}} = 25\%$ | $\frac{275 \text{ Days}}{365 \text{ Days}} = 75\%$ |

Therefore, assuming both houses have a TV of \$135,000 or less, Mr. Smith is entitled to use the following taxes:

|         | <u>Total Tax</u> |   | <u>%</u>    |   | <u>Allowable Tax</u> |
|---------|------------------|---|-------------|---|----------------------|
| House A | \$ 730           | x | 25%         | = | \$ 183               |
| House B | <u>1,285</u>     | x | <u>75%</u>  | = | <u>964</u>           |
| Total   | <u>\$2,015</u>   |   | <u>100%</u> |   | <u>\$1,147</u>       |

**RENTER**

**Rent**

If a landlord does not pay property tax or a service fee, no portion of the rent is considered to be property tax. Therefore, no credit is allowed.

Rent should not include security deposits, late fees, or charges for other services provided, such as meals or housekeeping.

The property tax included in rent is as follows:

1. 20 percent of rent paid, if the landlord pays property tax.
2. 10 percent of rent paid, if the landlord pays a service fee to the local unit of government instead of property tax (PILOT (payment in lieu of taxes) program).

### **Renter, Full-Year**

Claimant rented homestead for the full year (12 months). Complete lines 52 and 53 on page 3 of the return. Carry the figure on line 53 to line 11 on the front of the return. Calculate 20 percent of line 11 and enter on line 12.

### **Renter, Part-Year**

Claimant either moved from a rental situation to owning a home, was a part-year resident, or is filing on behalf of a deceased taxpayer. Claimant may only claim rent for the period of time he or she was a resident and actually occupied the rental unit. Do not include rent beyond the dates claimant lived in the unit (i.e., paid additional rent to fulfill a lease when he or she moved to another homestead). Complete lines 52 and 53 on page 3 of the return. Carry the figure on line 53 to line 11 on the front of the return. Calculate 20 percent of line 11 and enter on line 12. If the claimant also bought or sold a home, complete lines 45 through 51 on page 3 of the return, and carry the figures to line 10.

## **TYPES OF HOUSING**

To determine whether the claimant should be reporting a property tax figure or rent, consider the various types of housing and/or circumstances that may affect how the claimant should file.

### **Mobile Home**

A claimant living in a mobile home park may claim \$3 per month in addition to 20 percent of the balance of the rent paid. The \$3 per month is a specific tax in addition to the general property tax paid. If the renter also pays a **separate property tax** for an additional attached building (such as a garage, carport, or shed), he or she may also claim the specific property tax for the attached building. The taxes must be billed separately to qualify. Complete lines 52 and 53 on page 3 of the return. Include the lot rent minus the \$3 per month tax. Carry the figure on line 53 to line 11. Calculate 20 percent of line 11 and enter on line 12. Also, enter \$3 a month for the specific tax on line 10 (e.g., enter \$36 if claimant lived all 12 months of the tax year in the mobile home park).

### **Example:**

John Jackson lives in the Happy Motor Trailer Park. Mr. Jackson showed his lease agreement for the lot which disclosed total rent paid for the entire tax year of \$1,656. Included in each month's rent is a \$3 specific tax, which totals \$36 a year. The following entries are made on the credit claim:

- Page 3, line 52
  - Column A, enter the address where John Jackson lived and rented
  - Column B, enter the landowner's name and address
  - Column C, enter 12 as the number of months rented in the tax year

- Column D, enter \$138 as the rent paid per month ( $\$1,656 \div 12$ )
- Column E, enter \$1,620 as the total rent paid ( $\$1,656 - \$36$ )
- Page 1, line 10: Enter \$36 as taxes levied
- Page 1, line 11: Enter \$1,620 as total rent paid
- Page 1, line 12: Enter 20% of the rent paid, \$324 (line 11,  $\$1,620 \times 20\%$ )
- Page 1, line 13: Enter \$360 as the total taxes claimed for the property tax credit

### **Subsidized Housing**

If the claimant's rent was subsidized, complete lines 54, 55, and 58 on page 3 of the return. Enter the total rent paid by the claimant on line 55 and carry that amount to line 11 on page 1 of the return. Do not include amounts paid on behalf of the claimant by a government agency.

### **Service Fee Housing**

Complete lines 54 through 56, and line 58 on page 3 of the return. Carry the figure on line 56 to line 10 on page 1 of the return. This is the total service fee paid in lieu of taxes. Assuming the claimant lived in service fee housing for the full tax year, leave line 9 blank and **do not** complete lines 11 and 12.

### **Nursing Home, Home for the Aged, and Adult Foster Care Home**

A permanent resident of a nursing home, home for the aged, or adult foster care home is entitled to a homestead property tax credit if the facility pays local property taxes (many do not) and bills a lump sum for rent and services. The resident **cannot** claim rent. The resident's allocable share is calculated by dividing the facility's property tax by the number of licensed beds.

If the facility received a direct payment from a State or federal agency for the care of the resident, then the allocable share may be limited. The resident cannot claim an allocable share that is greater than the charges paid by the resident to the facility.

**Example:** Mrs. Brown's nursing home charges for the entire tax year were billed in a lump sum of \$13,000 (for rent, food, and other nursing services) to the State of Michigan. Of that sum, \$12,000 was paid directly to the nursing home by the State. Mrs. Brown paid the balance due of \$1,000. Mrs. Brown's "allocable share" of property taxes on the nursing home, based on 100 beds and \$60,000 in real property taxes, is \$600. Since Mrs. Brown's total charges paid by her are greater than her "allocable share," the allocable share of \$600 may be used by her for calculating a property tax credit.

On page 3 of the return, check box 57c and enter \$600 on line 57 as Mrs. Brown's prorated share of taxes. Carry the figure on line 57, \$600, to line 10 on page 1 of the return. Leave line 9 blank and **do not** complete lines 11 and 12.

### **Room and Board**

If the claimant pays room and board in **separate** billings, the claimant must base the credit on the rent. If the claimant pays room and board in **one** billing, the credit must be based on a prorated share of the property taxes on the facility. If the landlord does not provide this figure, divide the square footage of the claimant's living space by the total square footage of the facility, then multiply the total taxes on the facility by that percentage.

### **Special Housing**

If the claimant resides in housing where the rent includes meals and other services (housekeeping, laundry, transportation, etc.), the credit must be based on the prorated share of the taxes on the entire property. The facility must provide the claimant with the prorated share of the property taxes for use in the credit calculation. Claimants may not calculate the credit by using the portion of the monthly payment as rent.

### **Cooperative Housing**

Use the claimant's share of property taxes on the building. Ask to see a statement from the co-op giving the amount of taxes or percentage of the monthly payment that is considered tax on the claimant's unit. Enter the taxable value on line 9. Check box 57a on page 3 of the return and enter the claimant's prorated share of taxes on line 57. Carry the figure on line 57 to line 10 on page 1 of the return.

If the claimant lives in a co-op where residents also pay rent on the land under the building, they may also claim 20 percent of that land rent. Complete lines 52 and 53 for the land rent on page 3 of the return. Carry the figure from line 53 to line 11 on page 1 of the return. Calculate 20 percent of line 11 and enter on line 12.

## TOTAL HOUSEHOLD RESOURCES (THR)

Complete lines 14 through 32 according to the instructions.

THR is the total income of a husband and wife or a single person maintaining a household. It is made up of taxable and nontaxable income. THR is federal Adjusted Gross Income (AGI) plus income that is specifically excluded or exempted from federal tax, and 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 (NOL) as defined in Section 172(b)(2) of the internal revenue code.

*(See Income and Deductible Items, page 92)*

The following is a **partial list** of excluded or exempted income that must be included in a claimant's THR:

1. Benefits received from Social Security, including Supplemental Security Income (SSI) and Railroad Retirement benefits. Do not include Medicare payments in this total.
2. Family Independence Program (FIP) assistance and other Department of Human Services (DHS) assistance. Other public assistance may include State Disability. Do not include Food Assistance Program (food stamps) benefits.
3. Other public assistance benefits such as State Disability Assistance (SDA), State Family Assistance (SFA), Repatriate Assistance, Refugee Assistance, and vendor payments for shelter, heat, and utilities.
4. Workers' compensation payments.
5. Veteran's disability payments, pension benefit, or mustering out payments.
6. Amounts received for loss of wages due to permanent disability.
7. Amounts received as damages to character for personal injury or sickness.
8. Amounts in excess of the claimant's contributions received from a pension plan or annuity. This includes reimbursement payments, such as an increase in a pension to pay for Medicare charges.
9. Life insurance proceeds, except benefits from insurance on a spouse.
10. Money received from a person who is legally obligated to support a member of the household.
11. An inheritance, bequest, or devise, excluding an inheritance from a spouse.
12. Educational benefits received under federal or State legislation with respect to services in the military or naval forces of the United States.
13. Scholarships, stipends, other educational grants.
14. Income from an obligation issued by a state or its political subdivisions, including this State (e.g., tax-exempt municipal bonds).
15. Value over \$300 in gifts of cash, merchandise, or expenses paid on claimant's behalf (rent, taxes, utilities, food, medical care, etc.).
16. Payments in kind exceeding \$300 from nongovernmental sources.
17. The portion of capital gains and dividends excluded or deducted from federal AGI.

18. All capital gains. This is the total of short- and long-term gains less short- and long-term losses from U.S. *Schedule 1040D*. Include gains realized on the sale or foreclosure of taxpayer's residence regardless of age or whether or not these gains are exempt from federal income tax. Losses may not be deducted.
19. Death benefits paid by or on behalf of an employer, excluding benefits paid for a spouse.
20. Earned income from foreign sources excluded from federal gross income.
21. Accumulation distributions received from a trust.
22. Net rental income.
23. Child support.
24. Lump sum distributions that have been deducted in arriving at federal AGI.
25. Amounts received for minor children or other dependent adults who lived with the claimant.

Total household resources **does not include** (partial list):

1. Minor child's income.
2. Loan proceeds.
3. Surplus foods.
4. Receipt of original contributions to pension plans.
5. Relief in kind paid by a governmental unit, such as Medicaid payments to a nursing home or doctor or rent paid in whole or in part directly to the landlord. Chore service payments are income to the provider but not to the person receiving the benefits.
6. Governmental grants which must be used by the claimant to improve a homestead.
7. State and city income tax refunds, including homestead property tax and home heating credits. Farmland preservation tax credits are included in federal AGI and total household resources.
8. Amounts deducted from SSI or railroad retirement benefits for Medicare premiums.
9. Amounts paid by an employer for life, health, or accident insurance.
10. First \$300 in income from gambling, bingo, lottery, or prizes and awards during the year.

11. Stipends received by a person 60 years of age or older who is acting as a foster grandparent under the Foster Grandparent Program or as a senior companion of the Domestic Volunteer Service Act.
12. An inheritance from a spouse.
13. Life insurance benefits from a policy on the claimant's spouse.

**Note: Any net business loss after netting all business income and loss, net rental and royalty loss, and any carryback or carryforward of a net operating loss (NOL) as defined in Section 172(b)(2) of the internal revenue code cannot be included in total household resources.**

Enter the following on line 30, "Other Adjustments," taken from the adjustments to income portion of *U.S. Form 1040*:

1. Payments made to an Individual Retirement Account (IRA), Keogh (HR10), SEP, or Simple Plans if deducted from federal AGI.
2. Student loan interest deduction.
3. Health savings account deduction.
4. Moving expenses when moving into Michigan.
5. Deduction for ½ of the self-employment tax.
6. Self-employed health insurance deduction.
7. Penalty on early withdrawal of savings.
8. Alimony paid.
10. Educator expenses.
11. Tuition and fees deduction.
12. Domestic production activities deduction.

The adjustments listed above for line 30 should be supported by attaching a copy of the front page of *U.S. Form 1040*.

Enter medical insurance/HMO premiums that the claimant paid on line 31 (do not include health insurance premiums paid by employee payroll deductions (pre-tax)).

**Note:** Any health insurance premiums paid, in whole or in part, by the claimant and not by the employer for both claimant and family are deductible from gross income to arrive at THR (does not include premiums paid for with pre-tax employee payroll deductions). The filer may not claim protection insurance premiums for monetary compensation if he or she acquires a specific disease or becomes disabled. Also, a deduction may not be taken for insurance premiums covering the cost of nursing home or in-home care. The taxpayer may claim the portion of an auto insurance policy that covers medical coverage.

*Refer to Income and Deductible Items, page 92, for other items which may or may not be included in THR. See MI-1040 instruction booklet for additional information.*

## **INSUFFICIENT INCOME TO COVER LIVING EXPENSES**

THR must be sufficient to pay property taxes or rent plus all other living expenses. If income is insufficient, attach a note explaining the extenuating circumstances. General questions may be asked of the taxpayer to obtain additional information.

### **Example:**

A claimant comes into the office with W-2s showing total wages of \$2,500 which he or she claims to be the only income received for the year. This claimant also shows you rent receipts totaling \$3,000. Upon questioning the claimant, you discover the claimant has three children and claims no other money was received during the year. Obviously, something is wrong. The claimant spent \$3,000 towards rent but only had \$2,500 available to spend. In addition, there must have been other living expenses incurred to maintain the household.

The following are some questions you might ask the claimant to ascertain other possible sources of income:

- Did you receive ANY other income during the year from other sources, such as child support?
- Did you receive food stamps or other non-cash assistance during the year?
- Did you share living expenses with anyone else (rent, food, etc.)?
- Did you receive gifts of cash or were expenses paid on your behalf by friends or relatives?

State returns suspected to contain false information should be sent to the Treasury Discovery and Tax Enforcement Division, with a note of explanation.

## **CREDIT COMPUTATION METHODS**

This section discusses how to compute a property tax credit. If the claimant is eligible for more than one method, choose the method that produces the largest credit.

All filers must reduce the computed property tax credit by 10 percent for every \$1,000 (or part of \$1,000) that THR exceeds \$40,000. A property tax credit is not available to any filer whose total household resources exceed \$50,000.

The credit computation methods are:

- General claimant
- Paraplegic, quadriplegic, hemiplegic, totally and permanently disabled, blind, or deaf persons.
- Senior citizen – regular method
- Senior citizen - alternate rent credit method (rent larger than 40 percent of THR)
- Senior citizen - optional method (homeowner age 105 or older)
- Service persons or veterans or their widows or widowers
- Blind homeowners
- FIP recipient.

## **GENERAL CLAIMANT**

### **Qualifications**

This method is available when the claimant or spouse does not qualify for any other method or when the taxpayer or spouse does qualify for one or more of the other methods but the other method(s) results in a smaller refund or credit.

### **Method of Computation**

The credit is equal to 60 percent of the amount by which property taxes or 20 percent of the rent paid exceeds 3.5 percent of THR, subject to a credit maximum of \$1,200 and phase-out limitations.

### **Examples:**

| <u>Homeowner</u>      |                | <u>Renter</u>         |                |
|-----------------------|----------------|-----------------------|----------------|
| Property Taxes        | \$900          | Rent/Year             | \$4,200        |
|                       |                |                       | <u>x 0.2</u>   |
|                       |                |                       | 840            |
| THR                   | \$9,500        | THR                   | \$9,500        |
|                       | <u>x 0.035</u> |                       | <u>x 0.035</u> |
| Amount Not Refundable | - 333          | Amount Not Refundable | - 333          |
| Balance               | 567            | Balance               | 507            |
|                       | <u>x 0.6</u>   |                       | <u>x 0.6</u>   |
| Credit                | <u>\$340</u>   | Credit                | <u>\$ 304</u>  |

**Note: A general claimant will always apply 3.5 percent to THR, even when the THR is \$6,000 or less.**

**PARAPLEGIC, QUADRAPLEGIC, HEMIPLEGIC, DEAF, BLIND,  
OR TOTALLY AND PERMANENTLY DISABLED PERSONS**

**Qualifications**

*See page 52 of this text.*

**Method of Computation**

The credit equals the amount by which property taxes or 20 percent of the rent paid exceeds 3.5 percent of THR, subject to a credit maximum of \$1,200 and phase-out limitations. The following examples illustrate the computation for both the homeowner and the renter.

**Examples:**

| <u>Homeowner</u>      |                | <u>Renter</u>         |                |
|-----------------------|----------------|-----------------------|----------------|
| Property Taxes        | \$620          | Rent/Year             | \$4,000        |
|                       |                |                       | <u>x 0.2</u>   |
|                       |                |                       | 800            |
| THR                   | \$8,000        | THR                   | \$8,000        |
|                       | <u>x 0.035</u> |                       | <u>x 0.035</u> |
| Amount Not Refundable | <u>- 280</u>   | Amount Not Refundable | <u>- 280</u>   |
| Credit                | <u>\$340</u>   | Credit                | <u>\$ 520</u>  |

**Note: If THR is \$6,000 or less, substitute the 3.5 percent with the lower percentage found in the table on page 49 of this text or in the Michigan 1040 instruction booklet.**

**A homeowner who is blind should also complete Form MI-1040CR-2 and select the form that results in the larger credit.**

## SENIOR CITIZEN – REGULAR METHOD FOR HOMEOWNER OR RENTER

### Qualifications

A claimant is eligible for this method if either they or their spouse is 65 or over, and they rent or own their homestead.

### Method of Computation

For seniors with total household resources of \$21,000 or less, the credit is equal to 100 percent of the amount by which property taxes or 20 percent of the rent paid exceeds 3.5 percent of THR. The credit is reduced by four percent once THR exceeds \$21,000, down to 60 percent credit once THR exceeds \$30,000. Lastly, a \$1,200 credit maximum and phase-out limitations apply.

### Examples:

| <u>Homeowner</u>      |                | <u>Renter</u>         |                |
|-----------------------|----------------|-----------------------|----------------|
| Property Taxes        | \$3,400        | Rent/Year             | \$8,400        |
|                       |                |                       | <u>x 0.2</u>   |
|                       |                |                       | 1,680          |
| THR                   | \$37,000       | THR                   | \$37,000       |
|                       | <u>x 0.035</u> |                       | <u>x 0.035</u> |
| Amount Not Refundable | <u>- 1,295</u> | Amount Not Refundable | <u>- 1,295</u> |
| Balance               | 2,105          | Balance               | 385            |
|                       | <u>x 0.6</u>   |                       | <u>x 0.6</u>   |
| Credit                | \$1,263        | Credit                | <u>\$ 231</u>  |
| Credit Limit          | <u>\$1,200</u> |                       |                |

**Note: If THR is \$6,000 or less, substitute the 3.5 percent with the lower percentage found in the table on page 49 of this text or in the Michigan 1040 instruction booklet.**

**SENIOR CITIZEN - ALTERNATE METHOD FOR RENTER  
(RENT GREATER THAN 40% OF THR)**

**Qualifications**

A claimant is eligible for this method if they or their spouse is 65 or older, and they rent their homestead.

**Method of Computation**

The credit is equal to the amount by which the annual rent paid exceeds 40 percent of the THR, subject to a credit maximum of \$1,200. The illustration below compares this method to the regular method for a senior citizen.

| <b><u>Regular Method</u></b> |                | <b><u>Alternate Method</u></b> |                  |
|------------------------------|----------------|--------------------------------|------------------|
| Rent/Year                    | \$5,000        | Rent/Year                      | \$5,000          |
|                              | <u>x 0.2</u>   |                                |                  |
|                              | 1,000          |                                |                  |
| THR                          | \$8,500        | THR                            | \$8,500          |
| x 3.5%                       | <u>x 0.035</u> | x 40%                          | <u>x 0.4</u>     |
| Amount Not Refundable        | <u>- 298</u>   | Amount Not Refundable          | <u>- 3,400</u>   |
| Regular Method Credit        | <u>\$ 702</u>  | Alternate Method Credit        | <u>\$ 1,600*</u> |

\* Use the Alternate Method = \$1,200 (maximum amount allowed).

**SENIOR CITIZEN – HOMEOWNER AGE 105 OR OLDER IN 2013**

**Qualifications**

To qualify for this method, the taxpayer must meet all of the following:

1. The claimant or spouse must have received a senior citizen homestead exemption in 1973.
2. The THR must be \$6,000 or less.
3. The claimant’s age is at least 105 in 2013.

**Method of Computation**

Use the following formula to determine the property tax credit:

$$\frac{\$2,500}{\text{Taxable Value}^*} \times \text{Property Tax} = \text{Credit}$$

\* If the taxable value is \$2,500 or less, use 100% of the property taxes.

**Example:**

Harry Freeman is 105 years old and his THR is \$5,500. The TV on his house is \$10,000, while the property taxes are \$320. Using the senior homestead exemption method, Mr. Freeman’s credit is \$80, determined as follows:

$$\frac{\$2,500}{\$10,000} \times \$320 = \$80$$

However, using the lower percent of income allowed for seniors and disabled claimants with THR of \$6,000 or less, as discussed on page 49, Mr. Freeman’s credit is \$155, determined as follows:

|  |              |
|--|--------------|
| Property Taxes                                 | \$320        |
| Taxes Not Refundable (Table 2 in instructions) |              |
| (3% x \$5,500)                                 | <u>-165</u>  |
| Allowable Credit                               | <u>\$155</u> |

In this situation, prepare the form using the traditional senior calculation with the lower percent of income, even though the claimant qualifies for both methods. If a senior citizen is qualified to use the senior homestead exemption method, attach a sheet showing the computation.

Senior citizens who are renters are not entitled to use the senior homestead exemption method.

**SERVICE PERSONS, VETERANS, OR THEIR WIDOWS OR WIDOWERS**

**Qualifications**

A serviceman, servicewoman, veteran, and his or her widow or widower who owns a home and meets one of the following descriptions is entitled to use a special TV calculation (Form MI-1040CR-2):

1. Veteran with service-connected disability or widow or widower
2. Widow or widower of a veteran deceased in service
3. Veteran of war before World War I or widow or widower
4. Pensioned veteran or widow or widower
5. Active serviceperson or widow or widower
6. Widow or widower of a nondisabled or non-pensioned veteran of certain wars.

To qualify under categories 3 through 6 above, the claimant cannot have THR greater than \$7,500. FIP/DHS benefits must be included in the THR.

**Method of Computation - Home Owner**

The credit calculation for an eligible serviceman, servicewoman, veteran, widow, or widower is:

$$\frac{TVA}{TV} \times \text{Property Tax} = \text{Credit}$$

Table 2 in the MI-1040CR-2 instruction booklet lists the taxable value allowance (TVA) for each category of serviceman, servicewoman, veteran, widow, or widower.

To determine the refundable percentage for TVs, divide the TVA by the TV.

**Method of Computation - Renter**

The following formula is used to compute the TV:

$$\frac{20\% \text{ of Rent Paid}}{\text{Combined Millage Rate of the Locality of the Homestead (Non-homestead rate must be used)}} = \text{TV}$$

**Example:**

Martin Barnum is a 70 percent disabled veteran. He lived all year in an apartment and paid \$250 per month in rent. The combined county and city millage rate on the property is 56 mills (.056). Mr. Barnum’s property tax credit is calculated as follows:

- 1. Property tax included in rent:

|              |                   |
|--------------|-------------------|
| Monthly Rent | \$ 250            |
|              | <u>    x 12</u>   |
| Annual Rent  | 3,000             |
|              | <u>    x 0.20</u> |
| Property Tax | <u>\$ 600</u>     |

- 2. TV:

Property Tax divided by Combined Millage Rate = TV

$$\frac{\$600}{0.056} = \$10,714$$

- 3. TVA for a 70 percent disabled veteran is \$4,000. (See Table 2 in Form MI-1040CR-2 instruction booklet.)

4. Percent of taxes refundable from  $\frac{TVA}{TV} = \frac{\$4,000}{\$10,714} = 37.3\%$

5. Property Tax Credit:

$$\begin{aligned} & 20\% \text{ of Annual Rent multiplied by} \\ & \quad \% \text{ of Taxes Refundable} \quad = \text{Allowable Credit} \end{aligned}$$

$$\$600 \times 37.3\% = \$224$$

## **BLIND PERSON**

### **Qualifications**

To use the following method, a person must qualify as blind under Michigan Compiled Law (MCL) 206.504(1). Generally, this is vision of 20/200 or less in the better eye with corrective lenses, or peripheral field vision of 20 degrees or less.

### **Method of Computation**

The credit calculation for a blind person is:

$$\frac{TVA}{TV} \times \text{Property Tax} = \text{Credit}$$

The TVA for the following categories of blindness is:

| <b><u>Claimant</u></b>        | <b><u>TVA</u></b> |
|-------------------------------|-------------------|
| Blind individual              | \$3,500           |
| Husband and wife (one blind)  | 3,500             |
| Husband and wife (both blind) | 7,000             |

A blind claimant who is a homeowner may use the TVA/TV method. A blind claimant who is a renter may **not** use Form MI-1040CR-2.

## **PUBLIC ASSISTANCE / DEPARTMENT OF HUMAN SERVICES BENEFITS RECIPIENT**

### **Qualifications**

An individual whose only income is from Department of Human Services (DHS) is not eligible for a homestead property tax or rent credit. Assistance payments include FIP and State Disability Assistance (SDA). A taxpayer who received other income in addition to these benefits may be eligible to file for the credit.

### Method of Computation

Prorate the credit for a DHS recipient by using the ratio (percentage) of non-DHS income to total THR. To prorate the credit, use the information from your form to complete MI-1040CR Worksheet 3 on page 30 of the instruction booklet.

#### **Example:**

Jane Canton earned wages of \$4,000 and received DHS payments of \$6,000 during the tax year. She will receive a credit equal to 40 percent of the property tax credit.

$$\frac{\text{Non-DHS Income (Wages)}}{\text{THR}} = \frac{\$ 4,000}{\$10,000} = 40\%$$

If her property tax or rent credit was computed at \$400, she would receive a credit of \$160 (\$400 x 40%).

### Child Support

Subtract child support payments included in the DHS benefits from the amount on the DHS statement when calculating the non-DHS income. Include the child support as other income when computing the ratio of non-DHS income to total THR.

#### **Example:**

Jane Canton informs you that her husband pays child support. She should obtain a child support statement from the Friend of the Court indicating the amount of child support paid. If the statement indicates her husband paid \$2,000 in child support, compute the percentage as follows:

|   |     |   |
|---|-----|---|
| DHS   |     | \$ 6,000                                    |
| Less: Child Support Per Statement<br>From Friend of the Court |     | <u>2,000</u>                                |
| Net DHS   |     | <u>\$ 4,000</u>                             |
| <br>  |     |   |
| $\frac{\text{Wages + Child Support}}{\text{THR}}$             | $=$ | $\frac{\$4,000 + \$2,000}{\$10,000} = 60\%$ |

In this example, Jane can claim 60 percent of the credit. Make the following three entries on the total household resources schedule:

|               |                  |
|---------------|------------------|
| Wages         | \$ 4,000         |
| FIP/DHS       | 4,000            |
| Child Support | <u>2,000</u>     |
| Total THR     | <u>\$ 10,000</u> |

Attach the annual statement from Friend of the Court, FEN-851, to Form MI-1040CR or MI-1040CR-2, whichever is being completed. The FEN-851 form may be attached as a PDF to an e-filed return.

## **SPECIAL SITUATIONS**

### **Married-Joint Filers, Separate Homesteads**

A claimant may file for one 12-month period. Even though a husband and wife maintain separate homesteads, if they file a joint income tax return, they must file a joint property tax credit. They may claim only one homestead and must include their total combined THR.

### **Married-Separate Filer, Joint Homestead**

If a husband and wife file separate federal and Michigan returns and maintain a joint homestead they must:

1. Enter combined THR.
2. Enter total property taxes and/or rent paid for the year.
3. Split the credit between spouses.
4. Attach a copy of the CR form to each return.

### **Example:**

Jason and Ruth Gordon (husband and wife) maintain one homestead at 111 Main Street, Anytown, Michigan. They filed separate federal and Michigan income tax returns. Their only income is wages. Jason earned \$25,000 and Ruth earned \$17,500. Property taxes on their home are \$2,525. The correct homestead property tax credit is computed as follows:

|   |                        |
|---|------------------------|
| Jason's Wages                           | \$25,000               |
| Ruth's Wages                            | <u>17,500</u>          |
| Combined THR                            | <u>\$42,500</u>        |
| Homestead Property Tax                  | \$ 2,525               |
| Less 3.5% of THR<br>(0.035 x \$42,500)  | <u>- 1,488</u>         |
| Property Tax eligible to claim<br>x 60% | 1,037<br><u>x 0.60</u> |
| Homestead Property Tax Credit           | \$ 622                 |
| Phase-out<br>(Reduce Credit by 20%)     | <u>- \$124</u>         |
| Homestead Property Tax Credit           | <u>\$498</u>           |

The total of the Gordons' property tax credit cannot exceed \$498. If the Gordons elect to split the credit evenly, attach a copy of the claim showing each spouse's share of the credit to each income tax return; each would claim \$249 on line 44 of the MI-1040CR.

### **Married-Separate Filer, Separate Homestead**

If a husband and wife file separate federal and Michigan returns and maintain separate homesteads for the entire year, they must:

1. Determine that each spouse has established his or her separate domicile. See the section on domicile in the Form MI-1040 Instruction book, page 23.
2. Compute only his or her THR.
3. Claim only the property taxes and/or rent paid on his or her homestead.

### **Divorced or Separated Filer**

If a married couple separates or obtains a divorce during the year, each party usually establishes a separate homestead. The rules for determining homestead property tax credit for each claimant are:

1. Each claimant is entitled to claim a prorated share of the taxes or rent paid for the period prior to separation or divorce, based on each claimant's income to total income for the period.
2. Each claimant is entitled to claim his or her own prorated property tax or rent paid after separation plus his or her share of taxes or rent paid in the period prior to separation or divorce.
3. If applicable, a claimant must include house payments or rent paid by the other claimant in THR.

#### **Example:**

A husband and wife separated on May 1. The property taxes on the home are \$800. The husband continued to pay the mortgage on the home of \$225 per month. In addition, he rented an apartment for \$200 per month from May 1 through December 31. His income for the period prior to divorce is \$4,000, and her income is \$2,000.

#### **Husband:**

|    |   |   |                 |   |   |           |  |
|----|---|---|-----------------|---|---|-----------|--|
| 1. | Ratio of<br>Months<br>in Year<br>With<br>Spouse | x | Property<br>Tax | x | <u>Husband's Income</u><br>Total Income | =         | Prorated Property<br>Tax for Period<br>Living Together |
|    | 4/12  | x | \$800           | x | <u>\$4,000</u><br>\$6,000               | (0.667) = | \$178  |

|   |   |              |   |      |   |  |
|---|---|--------------|---|------|---|--|
| 2. No. of Months Rented                             | x | Monthly Rent | x | 20%  | = | Tax in Rent                              |
| 8   | x | \$200        | x | 0.20 | = | \$320                                    |
| 3. Prorated Property Tax for Period Living Together | + | Tax in Rent  |   |      | = | Eligible Property Taxes plus Tax in Rent |
| \$178   | + | \$320        |   |      | = | \$498                                    |

**Wife:**

|   |   |                       |   |                                      |   |  |
|---|---|-----------------------|---|--------------------------------------|---|--|
| 1. Ratio of Months in Year With Spouse              | x | Property Tax          | x | <u>Wife's Income</u><br>Total Income | = | Prorated Property Tax for Period Living Together |
| 4/12  | x | \$800                 | x | <u>\$2,000</u><br>\$6,000 (.333)     | = | \$89   |
| 2. Remainder of Months per Year                     | x | Property Tax          |   |                                      | = | Prorated Property Tax                            |
| 8/12  | x | \$800                 |   |                                      | = | \$533  |
| 3. Prorated Property Tax for Period Living Together | + | Prorated Property Tax |   |                                      | = | Total Eligible Property Taxes                    |
| \$89  | + | \$533                 |   |                                      | = | \$622  |

The wife must include \$1,800 in THR because her husband paid the monthly mortgage payments of \$225 for eight months after the separation (\$225 x 8 = \$1,800).

**Part-Year Resident**

If claimant resided in Michigan for at least six months of the year of the claim:

1. Enter THR received during the time claimant resided in Michigan. It may be necessary to annualize THR to determine if income exceeds phase-out limit. (See "Annualized Household Resources" on page 75)

2. Enter rent paid or prorated property tax for length of time claimant occupied a Michigan homestead. (See pages 55 and 57 for proration of property tax.)

**Note: Business income and/or losses that occurred in another state must be included in Michigan THR, based on the ratio of the number of days the claimant was a Michigan resident to 365 days.**

### **Deceased Claimant, Single Individual**

If filing for a deceased claimant with no surviving spouse:

1. Enter THR received up to the date of death. (See “Annualized Household Resources” below.)
2. Enter prorated property taxes or use the amount of rent paid to decedent’s date of death.

**Note: The heir, personal representative, or person (other than spouse) filing for decedent must file Form MI-1310 with claim. This form may be attached as a PDF to an e-filed return.**

### **Annualized Total Household Resources**

A part-year resident or claimant filing on behalf of a deceased taxpayer must annualize the THR to determine if income exceeds the phase-out limit. If the claimant is 65 years of age or older or is a paraplegic, quadriplegic, hemiplegic, or totally and permanently disabled, and is filing either as a part-year resident or on behalf of the deceased, the THR must be annualized to determine the percentage of taxes not refundable.

To annualize THR, compute income as follows:

$$\frac{\text{Michigan Income}}{\text{\# of Days in Michigan}} = \text{Income Per Day} \times 365 \text{ Days} = \text{Annualized Income}$$

#### **Example:**

A claimant and spouse were residents of Michigan for 212 days of the tax year and had THR of \$20,417 during their Michigan residency. Compute their annualized income as follows:

$$\frac{\$20,417}{212} = \$96.31 \times 365 \text{ days} = \$35,153$$

## **Owner-Occupied Rental Property**

If a claimant owns and lives in a multiple dwelling homestead and rents a portion of it, not all the property tax can be claimed for credit.

**Note: School operating taxes are only levied on the non-homestead portion of the property and may not be included in taxes levied when computing the property tax credit.**

**Owner-occupied duplexes.** When both units are equal, the taxes that can be claimed are limited to 50 percent of the tax on both units, after subtracting the school operating taxes from the total taxes billed.

**Owner-occupied income property.** Apartment building owners who live in one of the units or single family homeowners who rent a room(s) to a tenant(s) must do two calculations to figure the tax they can claim and base their credit on the **lower** amount. First, subtract 20 percent of the rent collected from the tax that can be claimed for credit. Second, reduce the tax claimed for credit by the amount of tax claimed as a business deduction on *U.S. Form 1040*.

### **Example:**

A home has an upstairs apartment that is rented to a tenant for \$395 a month. Total property taxes on the home are \$2,150. The calculations are as follows:

**Step 1:**      $\$395 \times 12 = \$4,740$  annual rent  
               $\$4,740 \times 0.20 = \$948$  taxes attributable to the apartment  
               $\$2,150$  total taxes -  $\$948 = \$1,202$  taxes attributable to owner's homestead.

**Step 2:**      $\$2,150$  total taxes -  $\$858$  taxes claimed as a business deduction =  $\$1,292$  taxes attributable to homestead.

The owner's taxes that can be claimed for credit are \$1,202, the smaller of the two computations.

## **Adults Sharing a Homestead**

Two or more unrelated adults may be entitled to claim a property tax credit as explained below.

1. If one of the individuals signed the lease and makes all payments or owns the homestead and pays the property tax, only that adult is entitled to claim a credit on the total property tax or rent paid. If the other person contributes to the household, that amount must be included in the claimant's THR. Include it on line 25 (Other Nontaxable Income).

**Or**

2. If each of the adult occupants owns the homestead or has contracted to pay a share of the rent, each is a claimant and is entitled to file a claim based on his or her own THR and his or her share of the taxes or rent paid.

**Example:**

A claimant owns and occupies a homestead that she shares with her two adult children. Neither child paid rent or room and board but contributes to their mother's total household resources. Since the children are not owners of the home nor did they contract to pay rent, the mother is entitled to claim all the property taxes in computing her homestead property tax credit. She must include the children's contributions in THR on line 25 (Other Nontaxable Income).

CHAPTER 4  
HOME HEATING CREDIT  
FORM MI-1040CR-7

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GENERAL INFORMATION

**INTRODUCTION**

A home heating credit helps low-income families pay their heating costs. This credit is claimed on Form MI-1040CR-7.

Beginning in 2012, the home heating credit may provide a smaller credit or may not be available to many claimants due to the following legislative changes:

- Special exemption for senior claimants is no longer available.
- Special exemption for unemployment compensation greater than 50% of AGI is no longer available.
- A shift from household income to total household resources, which does not allow the inclusion of any net business loss after netting all business income and loss, net rent or royalty loss, or any carryback or carryforward of a net operating loss (NOL).

**Note: Michigan's home heating credit is funded by federal Low-Income Home Energy Assistance Program Grants. The credit for 2013 may be reduced if the grant from the Low-Income Home Energy Assistance Program has been reduced.**

**Do not attach** Form MI-1040CR-7 to Form MI-1040. The home heating credit cannot offset an income tax liability. If Form MI-1040CR-7 is attached to Form MI-1040, it may cause delays in processing the credit.

Under **Public Act 335 of 2004** for certain claimants, the amount of a credit that exceeds outstanding heating bills must be applied by the energy provider to subsequent bills until used up or until nine months has passed. If there is any remaining energy draft amount after the nine-month period (or if the claimant is no longer a customer of the provider before the end of the nine-month period), the heating fuel provider must remit payment to the claimant within 14 days. This applies only if the claimant was a DHS recipient or received home heating assistance from a governmental agency or a nonprofit organization 12 months prior to remitting an energy draft to the claimant's enrolled heating fuel provider.

As a result of this legislation, taxpayers who receive their heat from DTE Energy, Consumers Energy, or SEMCO Energy will have their home heating credit sent directly to their heat provider whether or not they are enrolled in DHS's direct payment program.

## **INSTRUCTIONS**

Read the MI-1040CR-7 instruction booklet. The following information will recap and/or further explain the instructions in the booklet. (“Instructions” refers to the booklet used to prepare Form MI-1040CR-7.)

### **WHEN TO FILE A CLAIM**

A home heating credit claim must be filed by **September 30** of the year following the year of the claim.

### **ELIGIBILITY**

#### **Who May Claim a Credit**

A credit may be claimed if each of the following is true for the tax year:

1. Taxpayer’s homestead is in Michigan.
2. Taxpayer owned or rented the home where he or she lived.
3. Taxpayer’s total household resources (THR) are within the income limits listed on page 19 of the MI-1040CR-7 instruction booklet.

#### **Who May Not Claim a Credit**

A home heating credit cannot be claimed if:

1. Taxpayer was a full-time student claimed as a dependent by another person.
2. Taxpayer was a resident of a licensed congregate care facility (e.g., nursing home, adult foster care home, home for the aged, substance abuse center, etc.)

**Exceptions:** A claimant who did not reside in a licensed congregate care facility for the full tax year may claim a home heating credit based on a proration of the standard allowance. If the claim is for less than 12 months, only the standard credit method can be used.

If one spouse lived in a licensed congregate care facility and the other spouse lived in the family homestead, they may still qualify for a credit.

## IDENTIFYING INFORMATION

**Note: Do not mark through, cross out, etc., any box that does not apply to the claimant. Leave the box blank.**

### FILING STATUS

Check the applicable box for the claimant's filing status as of the end of the tax year. See the instruction booklet for further details.

### RESIDENCY STATUS

Check all applicable boxes on line 6. If one spouse is a resident and the other spouse a nonresident or part-year resident, check the appropriate box for each spouse.

### HOW MUCH WERE YOU BILLED FOR HEAT?

Enter total heating costs for November 1, 2012 through October 31, 2013 on line 11. If the taxpayer's heating bill does not indicate the amount, the taxpayer should call their heat provider.

Leave this line blank if the claimant:

- Checked the box on line 7 that their heating costs are included in their rent
- Died during the tax year and is not filing a joint claim
- Was a part-year resident
- Was not billed for 12 months of heating costs between November 1, 2012 and October 31, 2013.

### LICENSED CARE FACILITY

Check one box only (a–d) on line 12 if the claimant lived in a licensed care facility for the entire tax year. Do not check a box if the taxpayer is filing a joint return and only one spouse lived in a care facility.

### EXEMPTIONS

Enter the number that applies on the appropriate line using the following definitions:

- A      Personal Exemption. (Claimant and spouse.)
- B      An exemption(s) may be entered for the claimant, spouse, and each dependent of the claimant who is:
- Deaf – Defined as an individual whose hearing is totally impaired or whose hearing, with or without amplification, is so seriously impaired that the primary means of receiving spoken language is through other sensory input, including but not limited to lip reading, sign language, finger spelling, or reading.)

- Disabled – Hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled. Totally and permanently disabled means disabled as defined under the Social Security Guidelines (see 42 U.S.C. 416 of the U.S. Code).

**Note:** An exemption for totally and permanently disabled cannot be claimed on the home heating credit for a claimant, spouse, or dependent who is 66 years of age or older at the end of the tax year.

- Blind – Defined as a permanent impairment of both eyes of the following status: central visual acuity of 20/200 or less in the better eye with corrective glasses, or central visual acuity of more than 20/200 if there is a field defect in which the peripheral field has contracted to such an extent that the widest diameter of visual field subtends an angular distance of not greater than 20 degrees in the better eye.

C Qualified Disabled Veteran – Veteran with a service-connected disability. Defined as a veteran of the active military, naval, marine, coast guard, or air service who received an honorable or general discharge and has a disability incurred or aggravated in the line of duty as described in 38 U.S.C. 101(16) of the U.S. Code.

D, E, F Enter number of children that lived with the claimant:

- An exemption **can** be claimed on Form MI-1040CR-7 for any child(ren) that lived with the claimant.
- An exemption **cannot** be claimed on Form MI-1040CR-7 for any child(ren) that did **not** live with the claimant, even if the claimant paid most of the support and is entitled to an exemption(s) on Form MI-1040.

G Enter the number of dependent adults other than claimant’s spouse who lived with the claimant (including children over 18) **and for whom the claimant provided more than half of the dependent’s support.**

## DEPENDENTS

For every exemption claimed for children or dependent adults other than the spouse, the following information for each person **must** be listed: name, relationship to you, Social Security number, and age in years. If more space is needed, complete the *Michigan Home Heating Credit Claim MI-1040CR-7 Supplemental* (Form 4976).

## COMPUTATION

### TOTAL HOUSEHOLD RESOURCES (THR)

Total household resources (THR) is the total income received by a husband and wife or a single person. It includes income from all sources. It is the federal Adjusted Gross Income (AGI) plus income that is specifically excluded or exempted from federal tax, and increased by the following deductions from federal gross income:

1. Any net business loss after netting all business income and loss
2. Any net rental or royalty loss
3. Any carryback or carryforward of a net operating loss (NOL) as defined in Section 172(b)(2) of the internal revenue code.

*(See Total Household Resources, page 59, and Income and Deductible Items, page 92)*

#### Example 1:

Mr. and Mrs. Smith have total wages of \$7,500 and interest of \$250. Federal AGI was \$7,750. Mrs. Smith receives child support of \$3,500 (which is not taxable) from a previous marriage. Total household resources are \$11,250.

#### Example 2:

Ms. Jones has a rental loss of \$1,350, retirement benefits of \$2,400, and nontaxable Social Security benefits of \$12,084. Her federal AGI was \$1,050. Total household resources are \$14,484.

### STANDARD CREDIT OR ALTERNATE CREDIT COMPUTATION: WHICH METHOD TO USE

A standard credit is computed based on the number of exemptions and THR.

The alternate credit is computed based on THR and total heating costs.

If the claimant **currently** does not contract to pay heating costs, use the standard credit.

If the claimant was a part-year resident or filing on behalf of a taxpayer who died in 2013, use the standard credit.

If the claimant lives in a condominium and is not contracted to pay for heating costs, use the standard credit.

If the claimant contracts to pay for heating costs, calculate both methods and claim the larger credit.

## STANDARD CREDIT COMPUTATION FOR 2013

The standard credit computation is based on the number of exemptions and THR.

First, the number of exemptions is used to determine the standard allowance from the table below (the table is also on page 19 of the MI-1040CR-7 instruction booklet):

| <u>Exemptions</u> | <u>Standard Allowance</u> | <u>Income Ceiling</u> |
|-------------------|---------------------------|-----------------------|
| 0 or 1            | \$443                     | \$12,642              |
| 2                 | \$598                     | \$17,071              |
| 3                 | \$753                     | \$21,500              |
| 4                 | \$908                     | \$25,929              |
| 5                 | \$1,062                   | \$30,328              |
| 6                 | \$1,217                   | \$34,757              |
| Each over 6*      | + \$155                   | + \$4,429             |

**\*Example:** If eight exemptions are claimed, the standard allowance for 2013 is \$ 1,527.  
(2 x \$ 155 = \$ 310 + \$ 1,217 = \$ 1,527)

**IMPORTANT: Heating credits may be prorated for the tax year 2013. The proration percentage was not available at the time this manual was prepared.**

### Renter

If claimants are renters and heating costs are **currently** included in their rent, the standard home heating credit is reduced by 50 percent. An individual, who currently pays the landlord separately for heat, and not the heat provider, must also reduce the credit by 50 percent.

### Michigan Resident, Full-Year

The following example illustrates how to compute the credit for full-year residents based on the above table, which can also be found on page 19 (Table A) of the MI-1040CR-7 instruction booklet. If the eligible claimant's THR exceeds the income ceiling corresponding to the number of exemptions allowed on the home heating credit claim, the individual is not eligible for a credit.

### **Example:**

John and Mary Smith, both 65 years old in 2013, had total household resources of \$8,400. Mary was totally and permanently disabled in 2013. They are entitled to three exemptions on the 2013 claim.

|   |  |
|---|--|
| Standard Allowance for 3 exemptions                         | \$ 753                                 |
| Less 3.5% of Total Household Resources<br>(0.035 x \$8,400) | <u>-294</u>                            |
| Home Heating Credit   | \$ 459 (subject to possible proration) |

If John and Mary rented their homestead and heating costs were included in their rent, the credit would be computed as follows:

|   |  |
|---|--|
| Home Heating Credit (From Above)        | \$ 459                                 |
| Less 50% of the Credit<br>(0.5 x \$459) | <u>- 230</u>                           |
| Reduced Home Heating Credit             | \$ 229 (subject to possible proration) |

### **Part-Year Resident or Deceased Claimant**

The standard allowance is prorated and only the THR received while the claimant was a Michigan resident is used to compute the credit.

#### **Example:**

John and Mary Doe moved to Michigan on May 1. They have four children which entitles them to a total of six exemptions. Their Michigan income is \$14,800.

|  |   |           |   |  |
|--|---|-----------|---|--|
| 1. <u>No. of Days in Michigan</u>                            | x | Standard  | = | Prorated Standard                      |
| 365 Days   |   | Allowance |   | Allowance                              |
| <u>245</u> = (67%)   | x | \$ 1,217  | = | \$ 815                                 |
| 365  |   |           |   |  |
| 2. Prorated Standard Allowance                               |   |           |   | \$ 815                                 |
| Less 3.5% of Total Household Resources<br>(0.035 x \$14,800) |   |           |   | <u>-518</u>                            |
| Home Heating Credit  |   |           |   | \$ 297 (subject to possible proration) |

If John and Mary Doe rented their homestead and heating costs were included in their rent, the home heating credit would be reduced by 50 percent.

|                             |  |
|-----------------------------|--|
| Home Heating Credit         | \$ 297                                 |
| Less 50%<br>(0.5 x \$297)   | <u>- 149</u>                           |
| Reduced Home Heating Credit | \$ 148 (subject to possible proration) |

## **Adults Sharing a Homestead**

If a claimant **shares** a home but is **not** the owner or did **not** have a lease agreement to pay rent, he or she cannot claim a credit.

When people who are not spouses **own or rent a home jointly**, each can claim a home heating credit based on individual THR and his or her share of the standard allowance. Determine the standard allowance from Table A on page 19 in the MI-1040CR-7 instruction booklet, using the total number of personal exemptions in the home. Do **not** include Michigan special exemptions or dependent exemptions in this total. Divide the standard allowance by the number of claimants in the home.

### **Example:**

Three unrelated men share an apartment. Each has a signed lease and pays 1/3 of the rent. The standard allowance for three exemptions is \$753. Each person must use a standard allowance of \$251 ( $\$753 \div 3$ ) to compute his credit.

If eligible for a dependent exemption or for a special exemption for deafness, blindness, disability, or qualified disabled veteran, compute the standard allowance following this example.

### **Example:**

Emma and Ruth (sisters) share a home. Emma is age 61 and Ruth is age 63 and blind. They file separate Form MI-1040CR-7 claims. They must first divide the \$598 standard allowance by 2. Emma's allowance is \$299. However, Ruth qualifies for an extra exemption for blindness. She adds to her share of the standard allowance of \$299, the difference between the standard allowance for three (\$753) and the standard allowance for two (\$598) as follows:

$$\$753 - \$598 = \$155 + \$299 = \$454 \text{ allowance for Ruth}$$

The claimants in these situations may want to attach a letter of explanation when more than one individual is claiming a credit for the same address.

## **Condominium Owner**

The owner of a condominium, who does not contract separately for heating costs but pays a maintenance fee, does not have to reduce the claim to 50 percent. Leave box 7 blank, do not make an entry on line 38, and attach a letter of explanation.

## ALTERNATE CREDIT COMPUTATION FOR 2013

The alternate credit computation is based on THR and total heating costs.

For 2013, a claimant's THR may not exceed the maximum income amount corresponding to the number of exemptions claimed on the form based on the following table (Table B is on page 19 of the MI-1040CR-7 instruction booklet.):

| <u>Exemptions</u> | <u>Maximum<br/>Income</u> |
|-------------------|---------------------------|
| 0 or 1            | \$13,576                  |
| 2                 | \$18,269                  |
| 3                 | \$22,967                  |
| 4 or more         | \$24,018                  |

### Heating Costs

A claimant must provide his or her total heating costs for the 12 consecutive monthly billing periods ending in October of the tax year. A claimant should contact his or her enrolled heating provider for this information. If claimant is not a customer of an enrolled heating fuel provider, use billing statements to calculate the total cost for the 12 consecutive months ending in October of the tax year. Enter the lesser, \$2,642 or the total cost.

Heating costs include amounts paid for fuel oil, electricity (if homestead has electric heat), gas, coal, wood, or propane. The cost of wood is the amount spent during the 12 consecutive months ending sometime in October of the tax year or the fair market value if harvested from property owned by the claimant.

### Michigan Resident, Full-Year

The following example illustrates how to compute the alternate credit for a full-year resident based on Table B on page 19 of the MI-1040CR-7 instruction booklet.

#### **Example:**

James and Jean Smith have THR of \$13,000 and three exemptions. Their total heating cost is \$1,950. Their THR does not exceed the maximum income allowed for 3 exemptions.

|  |  |
|--|--|
| Maximum Fuel Cost  | \$1,950                                |
| Less 11% of Total Household Resources<br>(0.11 x \$13,000) | <u>-1,430</u>                          |
| Balance  | 520                                    |
| Multiply by 70%  | <u>x 0.70</u>                          |
| Home Heating Credit  | \$ 364 (subject to possible proration) |

### **Part-Year Resident or Deceased Claimant**

The alternate credit is not available for part-year residents or deceased claimants who died during the tax year if the claim is for less than 12 months. Use the standard credit.

### **Adults Sharing a Homestead**

If a claimant **shares** a home but is **not** the owner or did **not** have a lease agreement to pay rent, he or she cannot claim a credit.

When people who are not spouses **own or rent a home jointly**, each can claim a home heating credit based on individual THR.

If the heating costs are in the names of all those who share the homestead divide the heating costs by the number of claimants in the home and enter that amount in box 11. Complete both the standard credit and alternate credit computations on page 2; the claimant's credit is the higher of the two calculations. Use the shared housing standard allowance when computing the standard credit.

## CREDIT PAYMENTS

### **ENERGY DRAFTS OR WARRANTS (CHECKS)**

If, at the time of filing, the claimant pays his or her own heating costs, the taxpayer will receive an energy draft.

If, at the time of filing, the claimant's heat is included in rent, the taxpayer will receive a check.

For claimants whose heat is provided by DTE Energy, Consumers Energy, or SEMCO Energy, the home heating credit will be sent directly to the heat provider. If the credit amount exceeded the heat account balance, check the box on line 15 to receive a refund from the heat provider for the overpayment, if eligible. If not eligible, the excess refund will be used toward future bills. If after nine months there is still refund money due, the heat provider will send the excess refund to the individual. Eligibility requirements are: 1) no outstanding balance with the heat provider **and** 2) no heat assistance received in the past 12 months.

### **DIRECT DEPOSIT**

Claimants who will receive the home heating credit payment as a check may choose to direct deposit the credit payment. Direct deposit information for a Home Heating Credit Claim is entered on Form 3174. See the end of the instruction booklet for this form and its instructions. Ask to see proof of the claimant's RTN (routing number) and account number. It is important to enter all direct deposit information accurately.

## CHAPTER 5 ADDITIONAL INFORMATION

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### TAXABILITY OF FEDERAL OBLIGATIONS

Income from certain U.S. Obligations, reduced by any expenses in carrying the obligation used in arriving at federal AGI, can be subtracted on the Michigan return.

**The following U.S. Obligations are exempt from Michigan Individual Income Tax:**

|                              |   |
|------------------------------|---|
| U.S. Government Bonds        | U.S. Saving Bonds - Series E, F, G, and H |
| U.S. Government Certificates | U.S. Treasury Bills and Notes             |

**Obligations issued by the following U.S. Agencies are exempt:**

|  |  |
|--|--|
| Banks for Cooperatives   | Federal Intermediate Credit Banks                                |
| Central Banks for Cooperatives                                     | Federal Intermediate Credit Corp.                                |
| Commodity Credit Corp.   | Federal Land Banks   |
| Consolidated Bonds   | Federal Land Banks Association                                   |
| Consolidated Discount Notes  | Federal Savings and Loan Insurance Corporation                   |
| Consolidated System Bond, Series L                                 | Home Owner's Loan Corp.  |
| Consolidated Systemwide  | Joint Stock Land Banks   |
| Discount Notes   | Maritime Administration  |
| District of Columbia   | Production Credit Association                                    |
| Farm Credit Banks  | Small Business Administration                                    |
| Farmers Home Corp.   | Student Loan Marketing Association (Sallie Mae)                  |
| Federal Deposit Insurance Corp.                                    | Tennessee Valley Authority (bonds only)                          |
| Federal Farm Credit Bank   | U.S. Housing Authority   |
| Federal Farm Loan Corp.  | U.S. Maritime Commission   |
| Federal Farm Mortgage Corp.  | U.S. Possessions (obligations Puerto Rico, Virgin Islands, etc.) |
| Federal Financing Banks  | U.S. Postal Service (bonds)                                      |
| Federal Home Loan Banks  |  |
| Federal Housing Administration (General Insurance Fund Debentures) |  |

**The following debentures issued under the General Insurance Fund are exempt:**

Interest from Armed Services Housing Mortgage Debentures  
Interest from debentures issued under War Housing Insurance Law  
Interest from debentures to acquire rental housing projects

**The following General Services Administration Public Building Trust Participation Certificates are exempt:**

1st series A through E  
2nd series F  
3rd series G  
4th series H and I

The Guam Obligations issued by Government of Guam are exempt.

**Notes: Income from exempt U.S. Obligations received by the taxpayer through Money Market Funds, Money Market Certificates, Mutual Funds, Trusts, etc., generally qualifies for a subtraction.**

**Treasury Bill Futures are not U.S. obligations.**

**The following U.S. Obligations are taxable:**

- Building and Loan Associations
- Credit Union Share Accounts
- District of Columbia Armory Board
- Export/Import Bank of Washington, D.C.
- Federal Home Loan Mortgage Corporation (Freddie Mac) mortgages and other securities
- Federal Housing Administration (debentures, notes, and participation certificates)
- Federal National Mortgage Association (Fannie Mae) participation and other instruments
- Federal Savings and Loan Associations
- Government National Mortgage Association (Ginnie Mae) (debentures, notes, and participation certificates)
- International Bank for Reconstruction and Development (World Bank)
- Panama Canal Bonds
- Participation Certificates issued by the Federal National Mortgage Association
- Philippine Bonds
- U.S. Department of Agriculture Farmers Home Administration Insured Notes
- U.S. Government Insured Merchant Marine Bonds

**Other examples of taxable interest from federal obligations:**

- Debentures issued to mortgages or mortgages foreclosed under the provisions of the National Housing Act
- Farmer's Home Administration
- Federal Home Loan time deposits
- FSLIC secondary reserve prepayments
- Government National Mortgage Association participation certificates and on Federal Home Loan Mortgage Corporation participation certificates in mortgage pools
- Interest-bearing certificates issued in lieu of tax exempt securities, such income losing its identity when merged with other funds
- Participating loans in the Federal Reserve System for member banks (Federal Funds)
- Promissory notes of a federal instrumentality
- Refunds of federal income tax
- U.S. Postal Service certificates and savings deposits

## INCOME ALLOCATION CHART

The following chart may be used to determine which types or sources of income are taxable to Michigan. This chart is not inclusive of all types of income, but reflects the most common.

| <u>Type of Income</u>   | <u>Allocate To</u>   |
|---|--|
| Salaries, wages, tips, director fees, commissions, etc.                           | State where earned and state of residence. A Michigan resident may be entitled to a credit if income also taxed by another state.<br><br><b>Exception:</b> Residents of reciprocal states are not taxed by Michigan on this type of income and vice versa. |
| Deferred compensation:  |  |
| 1. Principal portion  | State of residence when received. (See RAB 1997-2 for tax years prior to 1996.)  |
| 2. Interest portion   | State of residence when received.  |
| Dividends and interest  | State of residence.<br><br><b>Exception:</b> If earned by a partnership or S corporation, allocate or apportion to the state of the business activity if business income.  |
| Business income or loss (Schedule C)  | State where business activity takes place. Business income attributable to Michigan and one or more states must be apportioned. (Form Schedule H.)   |
| Partnerships, S corporations, or other flow-through entities income or loss:      |  |
| 1. Ordinary business income or (Schedule E)                                       | State where business activity takes place.   |
| 2. All other business income or   | State where business activity takes place.   |
| 3. Nonbusiness income or loss   | State of residence.  |
| Capital gain or loss (Schedule D or 4797):  |  |
| 1. Intangible personal property such as stocks, bonds, commodities, futures, etc. | State of residence unless business income.   |
| 2. Section 1231   | State where property is located unless business income.  |
| 3. Real property  | State where real property is located unless business income.   |

| <u>Type of Income</u>   | <u>Allocate To</u>  |
|---|---|
| Pension, retirement, annuity, qualifying IRA distributions, and Social Security benefits  | State of residence when received.   |
| Rent and royalty income or loss (Schedule E): <ol style="list-style-type: none"> <li data-bbox="261 422 764 485">1. Tangible and intangible personal property</li> <li data-bbox="261 516 764 611">2. Real property (includes royalties for minerals which came from real property such as oil and coal)</li> </ol> | Michigan if used in this State, or if a resident and not taxable in the state where property is used.<br><br>State where real property is located unless business income. |
| Estate or trust income or loss  | Look to type and source of income and apply guidelines in this chart.   |
| Farm income or loss (Schedule F)  | State where farm is located.  |
| Unemployment compensation   | State of residence.   |
| Alimony and state and local refunds   | State of residence when received.   |
| Gambling winnings from casinos and licensed horse tracks located in Michigan, and winnings from raffle, bingo, and prizes won in Michigan.  | State where earned and state of residence. (Michigan Lottery won by nonresidents is taxable in Michigan.)   |

## INCOME AND DEDUCTIBLE ITEMS, SUMMARY CHART

**Notes:** N = Not included  
 Y = Included  
 AGI = Adjusted Gross Income  
 THR = Total Household Resources

| <u>Income Items</u>   | <u>AGI</u> | <u>Michigan<br/>Taxable<br/>Income</u> | <u>THR</u> |
|---|------------|--|------------|
| Alimony received  | Y          | Y                                      | Y          |
| Awards, prizes (in excess of \$300 for THR)   | Y          | Y                                      | Y          |
| Bingo:  |            |  |            |
| First \$300   | Y          | Y                                      | N          |
| In excess of \$300  | Y          | Y                                      | Y          |
| Bonuses   | Y          | Y                                      | Y          |
| Business (Schedule C) income or loss:   |            |  |            |
| In Michigan (except income and related expenses from oil and gas royalties and mineral extraction subject to severance tax)   | Y          | Y                                      | Y*         |
| From another state and/or income and related expenses from oil and gas royalties and mineral extraction subject to severance tax  | Y          | N                                      | Y*         |
| Capital gains:  |            |  |            |
| 100% taxable  | Y          | Y                                      | Y          |
| <b>Note:</b> Senior citizen born before 1946 may subtract interest, dividends, and capital gains included in AGI. The maximum deduction must be reduced by the pension subtraction. Allowable deduction is the smaller of the calculation or actual total interest, dividends, and capital gains. |            |  |            |
| This subtraction is adjusted by the percentage increase in the U.S. Consumer Price Index for the preceding calendar year. See MI-1040 instruction booklet for the year being reviewed.  |            |  |            |
| Gains on sale of principal residence  | N          | N                                      | Y          |
| Casualty loss reimbursement in excess of loss of property   | Y          | Y                                      | Y          |
| Child support payments:   |            |  |            |
| Payer   | Y          | Y                                      | Y          |
| Receiver  | N          | N                                      | Y          |

\* All business income and loss must be netted before considering the effect on THR. If the netting results in a loss, this cannot be used to reduce THR. Exception: Farmland Preservation Tax Credit continues to be based on household income and not THR. Business losses and NOL deductions are allowed in household income. (See MI-1040CR-5 instructions.)

| <u>Income Items</u>   | <u>AGI</u> | <u>Michigan<br/>Taxable<br/>Income</u> | <u>THR</u> |
|---|------------|--|------------|
| Chore service payments:                                     | Y          | Y                                      | Y          |
| Provider of service   | N          | N                                      | N          |
| Receiver of service   | Y          | Y                                      | Y          |
| Commissions   | Y          | Y                                      | Y          |
| Compensation for personal services rendered                 | Y          | Y                                      | Y          |
| Damages for personal injury or sickness                     | N          | N                                      | Y          |
| Deferred compensation                                       | Y          | Y                                      | Y          |
| Director's fees   | Y          | Y                                      | Y          |
| Disability income (limited)                                 | Y          | Y                                      | Y          |
| Policeman and Fireman On-Duty "J-Days"                      | N          | N                                      | Y          |
| Dividends received (see <b>Note</b> under "Capital gains")  | Y          | Y                                      | Y          |
| Educational expenses paid by employer                       | N          | N                                      | Y          |
| Employee business expenses: cash allowance or reimbursement | Y          | Y                                      | Y          |
| Energy assistance grants or tax credit                      | N          | N                                      | N          |
| Estates or trusts income or loss                            | Y          | Y                                      | Y*         |
| FIP benefits (see "Public assistance . . .")                |            |  |            |
| Farm income or loss from:                                   |            |  |            |
| Michigan  | Y          | Y                                      | Y*         |
| Another state   | Y          | N                                      | Y*         |
| Farm portion of homestead property tax credit               | Y          | Y                                      | N          |
| Farmland preservation tax credits                           | Y          | Y                                      | Y          |
| Foreign earned income exclusion                             | N          | N                                      | Y          |
| Foster care payments  | N          | N                                      | Y          |

\* All business income and loss must be netted before considering the effect on THR. If the netting results in a loss, this cannot be used to reduce THR. Exception: Farmland Preservation Tax Credit continues to be based on household income and not THR. Business losses and NOL deductions are allowed in household income. (See MI-1040CR-5 instructions.)

| <u>Income Items</u>   | <u>AGI</u> | <u>Michigan<br/>Taxable<br/>Income</u> | <u>THR</u> |
|---|------------|--|------------|
| <b>Gambling:</b>  |            |  |            |
| Winnings (in excess of \$300 for THR)   | Y          | Y                                      | Y          |
| Losses:   |            |  |            |
| Professional gamblers (Net losses)  | Y          | Y                                      | N*         |
| All others  | N          | N                                      | N          |
| <b>Gifts - cash:</b>  |            |  |            |
| First \$300   | N          | N                                      | N          |
| Excess over \$300   | N          | N                                      | Y          |
| Government grant for home repair or improvement   | N          | N                                      | N          |
| Government payments made directly to educational institutions or housing projects                       | N          | N                                      | N          |
| <b>Health, life (unless benefits exceed \$50,000), and accident insurance premiums paid by employer</b> |            |  |            |
|   | N          | N                                      | N          |
| Homestead property tax credits  | Y          | N                                      | N          |
| Housing allowance for clergy  | N          | N                                      | Y          |
| <b>Inheritance bequest or devise from:</b>  |            |  |            |
| Non-spouse  | N          | N                                      | Y          |
| Spouse  | N          | N                                      | N          |
| <b>Interest received on:</b>  |            |  |            |
| Banking, savings and loan assoc., etc., accounts  | Y          | Y                                      | Y          |
| Insurance dividends   | Y          | Y                                      | Y          |
| Land contracts  | Y          | Y                                      | Y          |
| Money market and savings certificates   | Y          | Y                                      | Y          |
| Municipal bonds issued by another state   | N          | Y                                      | Y          |
| Municipal bonds issued by Michigan  | N          | N                                      | Y          |
| Tax refunds   | Y          | Y                                      | Y          |
| U.S. Obligations (only specific agencies exempt)  | Y          | N                                      | Y          |
| Interest taxable to Michigan (see <b>Note</b> under “Capital gains”)                                    |            |  |            |
| <b>Life insurance proceeds paid to:</b>   |            |  |            |
| Non-spouse  | N          | N                                      | Y          |
| Spouse  | N          | N                                      | N          |
| Life insurance - cash in amount in excess of premiums   | Y          | Y                                      | Y          |
| Living expenses of claimant paid by another person  | N          | N                                      | Y          |

\* All business income and loss must be netted before considering the effect on THR. If the netting results in a loss, this cannot be used to reduce THR. Exception: Farmland Preservation Tax Credit continues to be based on household income and not THR. Business losses and NOL deductions are allowed in household income. See MI-1040CR-5 instructions.

| <u>Income Items</u>  | <u>AGI</u> | <u>Michigan<br/>Taxable<br/>Income</u> | <u>THR</u> |
|--|------------|--|------------|
| Loans received or paid   | N          | N                                      | N          |
| Long-term disability payments received<br>(if all or part of premium paid by employer)   | Y          | Y                                      | Y          |
| Lottery:   |            |  |            |
| 100% taxable (in excess of \$300 for THR)  | Y          | Y                                      | Y          |
| Installment winners of Michigan lottery who<br>won prior to 12-30-88   | Y          | N                                      | Y          |
| Lump sum distribution included in 10-year averaging<br>(for individuals born before 1936)  | N          | N                                      | Y          |
| Medicare payments  | N          | N                                      | N          |
| Military wages or retirements  | Y          | N                                      | Y          |
| Combat pay not excluded from taxable on federal return   | Y          | N                                      | Y          |
| Combat pay excluded from taxable on federal return   | N          | N                                      | Y          |
| Moving expenses, reimbursement:  |            |  |            |
| Moving into Michigan   | Y          | Y                                      | Y          |
| Moving out of Michigan   | Y          | N                                      | N          |
| Net operating loss deduction [The NOL is allowed in household<br>income when computing the Farmland Preservation Tax Credit]                     | Y          | Y                                      | N          |
| Partnership income or loss:  |            |  |            |
| In Michigan (except income and related expenses from oil and<br>gas royalties and mineral extractions subject to Michigan<br>severance tax)      | Y          | Y                                      | Y*         |
| From another state and/or income and related expenses from oil<br>and gas royalties and mineral extractions subject to Michigan<br>severance tax | Y          | N                                      | Y*         |
| Pension and retirement benefits for persons born after 1945 [ <i>refer to<br/>Pension and Retirement Benefits section of this manual.</i> ]      | Y          | Y/N                                    | Y          |
| Private pensions (e.g., qualified annuity plans) up to amount allowed<br>as subtraction for claimed year for persons born before 1946            | Y          | N**                                    | Y          |
| Private pensions or qualified annuity plans in excess of amount<br>allowed as subtraction for claimed year for persons born before 1946          | Y          | Y                                      | Y          |
| Public Pensions (federal, state, or municipal governments) for persons<br>born before 1946   | Y          | N                                      | Y          |

\* All business income and loss must be netted before considering the effect on THR. If the netting results in a loss, this cannot be used to reduce THR. Exception: Farmland Preservation Tax Credit continues to be based on household income and not THR. Business losses and NOL deductions are allowed in household income. See MI-1040CR-5 instructions.

\*\* This subtraction is adjusted by the percentage increase in the U.S. Consumer Price Index for the preceding calendar year. See the MI-1040 instruction book for the year being reviewed.

| <u>Income Items</u>   | <u>AGI</u> | <u>Michigan<br/>Taxable<br/>Income</u> | <u>THR</u> |
|---|------------|--|------------|
| Public assistance payments from DHS   |            |  |            |
| FIP paid to grandparents for care of grandchildren  | N          | N                                      | Y          |
| FIP paid to parents for children  | N          | N                                      | Y          |
| Public health officer's income:   |            |  |            |
| Michigan resident   | Y          | Y                                      | Y          |
| Nonresident   | Y          | N                                      | N          |
| Railroad sick pay   | Y          | Y                                      | Y          |
| Railroad Tier 1 retirement benefits:  |            |  |            |
| Taxable amount for persons born before 1946   | Y          | N                                      | Y          |
| Nontaxable portion  | N          | N                                      | Y          |
| Railroad Tier 2 retirement benefits for persons born before 1946  | Y          | N                                      | Y          |
| Railroad unemployment benefits  | N          | N                                      | Y          |
| Refunds - Michigan state and local income tax   | Y          | N                                      | N          |
| Relief in kind  | N          | N                                      | N          |
| Rents and royalties income or loss:   |            |  |            |
| In Michigan (except income and related expenses from oil and gas royalties and mineral extraction subject to Michigan severance tax)  | Y          | Y                                      | Y          |
| From another state and/or income and related expenses from oil and gas royalties and mineral extraction subject to Michigan severance tax                                   | Y          | N                                      | Y          |
| <b>Note:</b> All rent and royalty income and loss must be netted before considering the effect on THR. If the netting results in a loss, this cannot be used to reduce THR. |            |  |            |
| Retirement benefits (see "Private and Public pensions . . .")   | Y          | N/Y                                    | Y          |
| S corporation business activity:  |            |  |            |
| In Michigan (except income and related expenses from oil and gas royalties and mineral extraction subject to Michigan severance tax)  | Y          | Y                                      | Y*         |
| In another state and/or income and related expenses from oil and gas royalties and mineral extraction subject to Michigan severance tax                                     | Y          | N                                      | Y*         |

\* All business income and loss must be netted before considering the effect on THR. If the netting results in a loss, this cannot be used to reduce THR. Exception: Farmland Preservation Tax Credit continues to be based on household income and not THR. Business losses and NOL deductions are allowed in household income. See MI-1040CR-5 instructions.

| <u>Income Items</u>   | <u>AGI</u> | <u>Michigan<br/>Taxable<br/>Income</u> | <u>THR</u> |
|---|------------|--|------------|
| Scholarship, stipends, education grants, GI bill benefits   | N          | N                                      | Y          |
| <b>Note:</b> Scholarship must be received and used for qualified tuition and related expenses such as fees, books, supplies, and equipment required for courses of instruction at a qualified organization. |            |  |            |
| Scholarships or grants received and used for nonqualified expenses that are included in federal AGI such as room and board.   | Y          | Y                                      | Y          |
| Severance pay   | Y          | Y                                      | Y          |
| Sick pay  | Y          | Y                                      | Y          |
| Social Security benefits:   |            |  |            |
| Taxable amount  | Y          | N                                      | Y          |
| Nontaxable portion  | N          | N                                      | Y          |
| Stipends received for benefit of grantor (interns, resident doctors)  | Y          | Y                                      | Y          |
| Strike pay  | Y          | Y                                      | Y          |
| Supplemental gain (Form 4797)   | Y          | Y                                      | Y          |
| Supplemental unemployment benefits  | Y          | Y                                      | Y          |
| Surplus foods   | N          | N                                      | N          |
| Unemployment compensation   | Y          | Y                                      | Y          |
| Unemployment compensation from railroad   | N          | N                                      | Y          |
| Vacation allowance  | Y          | Y                                      | Y          |
| Veterans Administration benefits  | N          | N                                      | Y          |
| Wages, salaries, tips   | Y          | Y                                      | Y          |
| Workers' Compensation   | N          | N                                      | Y          |
|   |            |  |            |
| <u>Deductible Items</u>   | <u>AGI</u> | <u>Michigan<br/>Taxable<br/>Income</u> | <u>THR</u> |
| Alimony paid  | Y          | Y                                      | Y          |
| Capital losses:   |            |  |            |
| Short-term, maximum \$3,000 (THR, maximum \$3,000)  | Y          | Y                                      | Y          |
| Long-term, maximum \$3,000 (THR, maximum \$3,000)   | Y          | Y                                      | Y          |

| <u>Deductible Items</u>  | <u>AGI</u> | <u>Michigan<br/>Taxable<br/>Income</u> | <u>THR</u> |
|--|------------|--|------------|
| Casualty Loss:   |            |  |            |
| Claimed as itemized deduction  | N          | N                                      | N          |
| Claimed as business deduction  | Y          | Y                                      | Y          |
| “Claim of Right” (repayment of items previously included in<br>income) taken as:                                 |            |  |            |
| Itemized deduction (taken as Michigan credit)  | N          | N                                      | N          |
| Federal tax credit (taken as Michigan credit)  | N          | N                                      | N          |
| Deduction reflected in AGI   | Y          | Y                                      | Y          |
| Health and accident insurance paid by taxpayer for self and<br>family (not including pre-tax payroll deductions) | N          | N                                      | Y          |
| IRA or Keogh, (payments to)  | Y          | Y                                      | Y          |
| Moving Expenses:   |            |  |            |
| Moving to Michigan   | Y          | Y                                      | Y          |
| Moving out of Michigan   | Y          | N                                      | N          |
| Penalty on early withdrawal of savings   | Y          | Y                                      | Y          |
| Self-employment tax deduction  | Y          | N                                      | Y          |
| Venture Capital deduction  | Y          | N                                      | N          |

## MICHIGAN CITIES LEVYING AN INCOME TAX

The following Michigan cities levy an income tax of **1 percent** on residents and **0.5 percent** on nonresidents except those cities where rates are indicated:

|   |  |
|---|--|
| Albion  | Ionia  |
| Battle Creek  | Jackson  |
| Big Rapids  | Lansing  |
| Detroit (2.4% on residents, 1.2% on nonresidents)       | Lapeer   |
| Flint   | Muskegon   |
| Grand Rapids (1.5% on residents, 0.75% on nonresidents) | Muskegon Heights                                   |
| Grayling  | Pontiac  |
| Hamtramck   | Port Huron   |
| Highland Park (2% on residents, 1% on nonresidents)     | Portland   |
| Hudson  | Saginaw (1.5% on residents, 0.75% on nonresidents) |
|   | Springfield  |
|   | Walker   |