
# Taxpayer Assistance Manual

2015 SUPPLEMENT

# NEW FOR 2015

**Senate Bill 100 of 2015 (PA 0079 of 2015)**

Senate Bill 100 of 2015 (PA 0079 of 2015) was signed into law June 16, 2015. The law goes into effect on March 18, 2016, 90 days after the adjournment of the 2015 legislative session which occurred on December 18, 2015. The bill amends the Revenue Act to delete a requirement that, in an appeal to the Court of Claims, a taxpayer first pay the disputed portion of a tax, including penalties and interest, under protest and claim a refund as part of the appeal. The bill also allows a taxpayer 60 days to appeal to the Tax Tribunal. Currently, a taxpayer may appeal an assessment, decision, or order of the Department of Treasury to the Tax Tribunal within 35 days, or to the Court of Claims within 90 days, after the assessment, decision, or order.

**Supreme Court of the United States - Same-Sex Marriage**

On June 26, 2015, the Supreme Court of the United States invalidated the Michigan Constitution's definition of marriage. In *Obergefell et al v Hodges*, the Court held that the State's definition of marriage as the union of one man and one woman denied same-sex couples the benefits of marriage and therefore denied them the equal protection of the law under the 14th amendment of the United States Constitution. As a result, Michigan now recognizes the marriages of same-sex spouses.

As of the date of the Court's decision, same-sex spouses who file Michigan income tax returns and who are married under the laws of the State of Michigan or under the laws of another state must claim either "married filing jointly" or "married filing separately" status on a Michigan income tax return. If the spouses file a joint federal income tax return, they must also file a joint Michigan return. If the spouses did not file a joint federal return, they may choose to file separately or jointly.

Michigan income tax returns may be amended to claim "married filing jointly" if the same-sex spouses choose to do so, but the Department will not require amended returns. If an amended return is filed, refunds will only be issued if the return is filed within 4 years of the date that the original return was due.

**Employer Provided Same-Sex Spousal Benefits**

Recognition of same-sex marriage will prevent the taxation of certain employee benefits for a same-sex spouse under the Michigan Income Tax Act. This guidance does not apply to domestic partners or other relationships that do not constitute a state-sanctioned marriage.

Prior to the recognition of same-sex marriage in Michigan, the value of the employer's share of employer-provided health care coverage for a same-sex spouse was included in the employee's Michigan taxable income. In addition, pre-tax dollars used to pay the employee's share of health premiums for a same-sex spouse were also added to employee's Michigan taxable income. Similarly, pre-tax dollars used to fund a flexible spending account for the benefit of a same-sex spouse and dependents of that spouse were added to the employee's Michigan taxable income.

For tax years before 2015, an employee who was married to a same-sex spouse may seek a refund by filing an amended Michigan income tax return to deduct the value of any same-sex spousal benefits that were included in Michigan taxable income during that tax year**.** For taxpayers with same-sex spousal benefits who only had Michigan wages, the value of those benefits will be the difference between the amount in box 1 and box 16 of a federal W-2. If an amended return is filed, it must be filed within 4 years of the date the original return was due. The return may be filed claiming either "married filing jointly" or "married filing separately" status.

## City of Detroit Individual Income Tax Returns

Treasury will administer City of Detroit individual income tax returns beginning with the 2015 tax year returns. Detroit returns may be e-filed as part of the transmission of the Michigan income tax return. Employers required to withhold Detroit city income tax must remit withholding to the Department beginning with the 2017 calendar year.

## Business, Rental, and Royalty Activity Worksheet

Treasury has made available a sample worksheet, titled Business, Rental, and Royalty Activity Worksheet (Worksheet) that allows taxpayers a means to identify the location of Michigan and non-Michigan business activity and rental activity. The Worksheet also allows other non-business income to be identified as Michigan or non-Michigan. The Worksheet is a suggested attachment and can be used by those who e-file or mail their return. The Worksheet, or any similar worksheet that identifies the type and location of non-Michigan business activity and income, may be attached as a PDF file to an e-filed return using the file name "BusinessActivity.pdf." The Worksheet or similar worksheet may also be attached to any paper filed return. The Worksheet is not a required attachment, however submitting the Worksheet could reduce the need for further correspondence to obtain information required to process the return and avoid delays. The Worksheet can be obtained at *www.michigan.gov/iit*.

## Reminders

### e-Payments

Individual Income Tax (IIT) filers have the option of making payments electronically using Treasury's e-Payment system. Paying electronically is easy, fast, and secure. The available payment types include IIT tax payments (tax due on the *Individual Income Tax Return* (MI-1040), quarterly estimated income tax payments, and individual income tax extension payments. Payments can be made using direct debit (e-Check) from a checking or savings account, or credit or debit card. There is no fee for e-Check payments. Credit and debit payments will be charged a convenience fee (2.35 percent of the total payment for credit cards and a flat fee of $3.95 for debit cards) which is paid directly to the payment processing vendor. Visit *www.michigan.gov/iit* for more information.

**Pension Benefits**

Individuals born in 1946, 1947, and 1948 who have reached age 67 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 and Retirement Benefits" section for additional information and limitations.)

Individuals who reach age 62 in 2015 (born in 1953) who receive pension benefits from employment with governmental agencies not covered by the Social Security Act, may be eligible for up to a $15,000 pension subtraction or up to $30,000 if both spouses on a jointly filed return received pension benefits from an "uncovered" governmental agency.

## SUMMARY OF CHANGES FOR 2015

| | |
|---|---|
| Tax Rate | 4.25% |
| Personal Exemption | $4,000 |
| Special Exemption for Seniors | $0 |
| Special Exemption for Disabled | $2,600 |
| Child Care Deduction | $0 |
| Qualified Disabled Veteran Deduction | $400 |
| Pension Deduction | |
| Single Filer | |
| Born before 1946: private pension limit | $49,811 |
| Born in 1946 through 1948: Standard deduction against all income | $20,000 |
| Born in 1949 through 1952 | $20,000 |
| Born after 1952, pension not deductible* | $0 |
| Jointly Filed | |
| Born before 1946: private pension limit | $99,623 |
| Born in 1946 through 1948: Standard deduction against all income | $40,000 |
| Born in1949 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) | $11,104 |
| Jointly Filed (not available for senior born after 1945) | $22,207 |

**Exception: Taxpayers who have reached age 62 and received benefits from Social Security exempt employment may be eligible for a pension deduction. See Pension and Retirement Benefits*

## SUMMARY OF CHANGES FOR PRIOR YEARS

| | 2011 | 2012 | 2012 | 2014 |
|---|---|---|---|---|
| Tax Rate | 4.35% | 4.33% | 4.25% | 4.25% |
| Personal Exemption | $3,700 | $3,763 | $3,950 | $4,000 |
| Special Exemption | $2,400 | $2,400 | $2,500 | $2,500 |
| Child Care Deduction | $600 | 0 | 0 | 0 |
| Qualified Disabled Veteran Deduction | $300 | $300 | $300 | $400 |
| Pension Deduction | | | | |
| Single Filer | $45,842 | | | |
| Born before 1946: private pension limit | | $47,309 | $48,302 | $49,027 |
| Born after 1945 and are age 67 or older: | | | | |
| Standard deduction against all income | | $20,000 | $20,000 | $20,000 |
| Born 1946 through 1952 and age 66 or less | | $20,000 | $20,000 | $20,000 |
| Born after 1952, pension not deductible | | 0 | 0 | 0 |
| Jointly Filed | $91,684 | | | |
| Born before 1946: private pension limit | | $94,618 | $96,605 | $98,054 |
| Born after 1945 and are age 67 or older: | | | | |
| Standard deduction against all income | | | $40,000 | $40,000 |
| Born 1946 through 1952 and age 66 or less | | $40,000 | $40,000 | $40,000 |
| Born after 1952, pension not deductible | | 0 | 0 | 0 |
| Senior Interest, Dividend, and Capital Gains | | | | |
| Single Filer | $10,218 | | | |
| Single Filer (not available for senior born after 1945) | | $10,545 | $10,767 | $10,929 |
| Jointly Filed | $20,437 | | | |
| Jointly Filed (not available for senior born after 1945) | | $21,091 | $21,534 | $21,857 |

## TAX YEAR 2015 UPDATES

**e-Payments:**
Individual income tax filers now have the option of making payments electronically using the Michigan Department of Treasury's e-Payment system.

The available payment types include:

- Individual income tax payment (tax due on the MI-1040)
- Quarterly estimated income tax payments
- Individual income tax extension payments

Payments can be made using:

- Direct debit (e-Check) from a checking or savings account. There is no fee for e-Check payments.
- Credit card. These payments will be charged a convenience fee of 2.35% of the total payment.
- Debit card. These payments will be charged a convenience fee of $3.95.

Please note the new IIT e-Payments system should not be used to make payments when the taxpayer has received an assessment or assessment number from Treasury's Office of Collections. In that case, the payment needs to be made using the Collections e-Services payment program. This will ensure timely and accurate posting of the payment.

**Reminders:**

- All pages of all forms must be completed and filed to be considered a complete return.
- **Amended Returns:**
    - Must use form MI-1040X-12 for **<u>2012 and future year</u>** amended returns
    - Must use form MI-1040X for **<u>2011 and prior year</u>** amended returns

## HIGHLIGHTS OF THE 2015 TAX FORM CHANGES

**MI-1040 Michigan Individual Income Tax Changes:**

- Line 9b – Special exemption allowance increased to $2,600.

**Schedule 1 Additions and Subtractions Changes:**

**Additions – No changes.**

**Subtractions – Two lines have been updated:**

- Line 24 – Michigan Standard Deduction. Individuals born during the period January, 1946 through January 1, 1949, and reached the age of 67 on or before December 31, 2015, 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. Reminder: **If filers do qualify** for the Michigan Standard Deduction, they do not fill out form 4884 and do not qualify for a dividend/interest/capital gains deduction.
- Line 26 – Dividend/interest/capital gains deduction for taxpayers **70 years and older.** Deduction limited to $11,104 for single or married filing separately filers and $22,207 for joint filers, less any deduction for retirement benefits.

**Schedule W**

- Reminder: **Table 1 –** Report military pay even if no Michigan tax was withheld.
- Reminder: **Table 2 –** Report military retirement benefits and railroad retirement benefits even if no Michigan tax was withheld.

**Voluntary Contributions Schedule (Form 4642):**

- Amber Alert Fund of Michigan has been removed.

**Pension Schedule (Form 4884):**

**Added Section D**

- Line 28 – If filer or spouse received retirement benefits from employment exempt from the Social Security Act during the tax year, and the older of filer or spouse was born on or after January 1, 1953 but before January 2, 1954, enter all qualifying retirement and pension benefits received, up to $15,000. If both spouses on a joint return have retirement benefits from employment exempt from the Social Security Act, the maximum deduction is $30,000.

**2015 Home Heating Credit (MI-1040CR-7) Standard Allowance – Table A**

| Your Exemption (from line 13h) | Standard Allowance | Income Ceiling |
|---|---|---|
| 0 or 1 | $454 | $12,956 |
| 2 | $614 | $17,528 |
| 3 | $774 | $22,099 |
| 4 | $935 | $26,699 |
| 5 | $1,095 | $31,270 |
| 6 | $1,255 | $35,842 |
| | + $160 for each exemption over 6 | + $4,571 for each exemption over 6 |

**Exemptions and Maximum Income for the Alternate Credit Computation–Table B**

| Your Exemptions (from line 13h) | Maximum Income |
|---|---|
| 0 or 1 | $13,727 |
| 2 | $18,472 |
| 3 | $23,222 |
| 4 or more | $24,018 |

# PROBLEM 1:
# HOMEOWNER

Prepare an MI-1040CR for John and Joanna Powers, ages 66 and 68 respectively. They have no dependents nor do they qualify for any special exemptions. Their Social Security numbers (SSNs) are 111-11-1111 and 222-22-2222, respectively. They owned and lived in their house at 312 W. Outer Drive, Detroit, MI 48106, for the entire year. The property tax bills on their homestead are:

| **SUMMER 2015** | | **WINTER 2015** | |
|---|---|---|---|
| Total Taxes | $475 | Total Taxes | $950 |
| Special Assessment Sidewalk | + 175 | | |
| Total | 650 | Total | 950 |
| Administrative Fee | + 5 | Administrative Fee | + 9 |
| Total | 655 | Total | $959 |
| State Equalized Value | 55,000 | | |
| Taxable Value | $31,000 | | |

Their annual income is:

| **SOCIAL SECURITY** | | **PENSION** | |
|---|---|---|---|
| Paid by check or direct deposit | $5,850 | Gross Distributions | $11,700 |
| Medicare premiums deducted | 600 | Original contributions | 2,300 |
| Total Benefits for 2015 | $6,450 | Taxable Benefits | $9,400 |

They paid $450 health insurance premiums to Aplac.

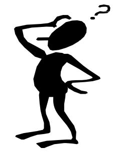
Assume the same facts as shown above and compute the homestead property tax credit for the Powers for each of the following fact changes:

A. Both John and Joanna are age 64. The Social Security payments received are due to Joanna being considered totally and permanently disabled.

B. The Powers' taxable benefits from their pension now equals $18,100.

C. Joanna passed away two years ago at age 66. John is currently 64, unmarried, only received the Social Security payments, and **did not** pay for health insurance to Aplac.

D. John and Joanna moved into their son's home on July 1, 2015 and sold their home on September 1, 2015. The son would not accept any rent from them for the remainder of the year.



# PROBLEM 2:
# RENTER

Susan Storm is age 49 and single. Susan has three dependents and does not qualify for any special exemptions. Her SSN is 999-99-9999. Her only income was from wages of $17,850. Susan paid no health insurance premiums, as health insurance is provided by her employer. She rented an apartment at 360 W. 18th Street, Holland, MI 49422 and paid $750 per month for the entire year. Her landlord is Bill Lux at 505 Main, Zeeland, MI 49424. Prepare her MI-1040CR.

Assume the same facts as shown above and compute the Homestead Property tax credit for Susan for each of the following fact changes:

A. Susan rented an apartment at Holland City Towers for $800 per month. The apartment building pays a service fee to the Holland City Housing Commission in lieu of ad valorem property taxes.

B. Susan lived in a mobile home park and paid lot rent of $840 per month, which included $3 per month specific tax. Her wages have also increased to $42,250 for the year.

C. Susan lived six months in a complex that pays ad valorem property taxes and she paid $800 rent per month. She also lived six months in a service fee complex where she paid $725 per month. Her wages are $17,850.

# PROBLEM 3:
# SENIOR CITIZEN WITH LARGE RENT

Marjorie Stone is age 82. Her SSN is 333-33-3333. She received a $6,750 pension from Toys-R-4-Everyone and $800 in interest income. Her annual Social Security statement revealed the following:

| | |
|---|---|
| Paid by check or direct deposit | $ 6,700 |
| Medicare premiums deducted | 500 |
| Total Benefits for 2015 | $ 7,200 |

Marjorie paid Blue Cross Insurance premiums of $275 per quarter. She rented an apartment in the Biltmore Towers at 216 Biltmore S.E., Grand Rapids, MI 47460, paying $625 per month for the entire year. Prepare the MI-1040CR for Marjorie.

# PROBLEM 4:
# VETERAN USING MI-1040CR-2

John Hogan is 59 years old and not married. His SSN is 444-44-4444. John received a disability pension from the Army of $7,900 for the year. John's percent of disability is 25 percent. John also received wages of $40,000 for the year.

The Property Tax Bill on his homestead at 54 Rutgers, Kalamazoo, MI 49001, contains the following information:

| | |
|---|---|
| Property Taxes | $ 1,100 |
| Taxable Value | $ 21,750 |

**Solution Note:** As General Claimant, he would receive no Property Tax Credit (see computation below).

| | |
|---|---|
| Property Taxes | $ 1,100 |
| THR ($47,900) x .035 | - 1,677 |
| | $0 |

Therefore, compute the credit using the *MI-1040CR-2*.

A. Assume the same facts as in the example above for John Hogan, except that he rented his home paying $600 per month for the entire year. Also, assume that the combined non-homestead millage rate for Kalamazoo city and county is 59.5 mills.

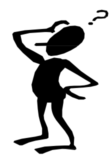
**Solution Note:** To prepare a credit for a renter using the CR-2 method, the combined millage rate for the city and county must be obtained by the taxpayer or tax preparer. This figure may be obtained from the Treasurer/assessor's office or by calculating it from tax bills of other taxpayers.

NOTE: Beginning in 2013, disabled veterans who own their home, filed a *State Tax Commission Affidavit for Disabled Veterans Exemption*, and received a property tax exemption are not eligible for a homestead property tax credit on the exempt property.

# PROBLEM 5:
# FAMILY INDEPENDENCE PAYMENT (FIP) / MICHIGAN DEPARTMENT OF HEALTH AND HUMAN SERVICES (MDHHS) RECIPIENT

Joan Street is 32 years old and her minor child lives with her. She had the following household income:

| | |
|---|---|
| Wages | $3,200 |
| FIP/MDHHS | 6,800 |
| Total Household Resources | $10,000 |

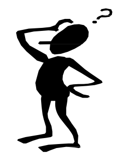


Per the 2015 Friend of the Court statement, the father of Joan's child paid $2,000 of child support which is included in the $6,800 reported on the FIP/MDHHS statement. The property taxes on Joan Street's home in 2015 are $890 and the taxable value is $23,350. Joan's SSN is 666-66-6666 and her address is 1452 Dawson, Port Huron, MI 48322. Prepare Joan's MI-1040CR.

# PROBLEM 6:
# HOME HEATING CREDIT

Arthur and Millie Watson are ages 83 and 81, respectively. Arthur is deaf (cannot communicate through the spoken word) and Millie is blind (vision of 20/200 or less with corrective lenses in the better eye). They have no children or other dependents.

Their income is as follows:



- Social Security after the Medicare deduction is $680 per month.
- Pension from Ajax Manufacturing is $5,750 for the year.

The present heating statements from Consumers Energy for the 12-consecutive-month period of November 1, 2014 through October 31, 2015, is $1,970. They own their home and heat it with gas. Prepare a Home Heating Credit for the Watsons.

Their SSNs are 888-88-8888 and 777-77-7777, and they reside in their home at 3607 Weaver, Royal Oak, MI 48237.

A. Compute the heating credit for the Watson's if they moved on January 15, 2015 to 660 W. Foster, Ferndale, MI 48221, where heat is now included in their rent.

# PROBLEM 7:
# MICHIGAN INCOME TAX RETURN WITH TIERED PENSION EXAMPLES

Donald and Sandra Earle are ages 70 and 65 respectively. Their SSNs are 000-00-0000 and 112-12-1212 and they reside at 200 River, Saginaw, MI 48000. They furnish 75 percent of the support for Donald's mother who has very little income of her own.

Their income for the year is from the following:

| | |
|---|---|
| Donald's Wages | $ 25,500 |
| City of Highland Park Pension | $ 12,850 |
| Bank Interest | 750 |

| 2015 W-2 Information | Gross Wages | Fed W/H | State W/H |
|---|---|---|---|
| 55-2222222 Barker Products | $25,500 | $775 | $625 |

In addition, they want to donate $10 to the Children of Veterans Tuition Grant Program and $15 to the United Way Fund.

Prepare a Michigan Income Tax Return based on the above information.

Assume the same facts as shown above and complete a Michigan Income Tax Return for each of the following fact changes:

A. Donald is 67 in 2015, they have no dependents.

B. Donald and Sandra were both born in 1952. Sandra is blind and they have no dependents.

C. Donald is single, 66 and deaf. He received a $100 2014 city income tax refund which was included in his 2015 AGI, his pension is now $21,000, and he has no dependents.

D. Donald is single, born in 1953, and fully supports his mother. He did not make voluntary contributions on his Michigan return.

# PROBLEM 8:

## MICHIGAN INCOME TAX RETURN WITH INTEREST, DIVIDEND, AND CAPITAL GAIN SUBTRACTION

George Burns is age 75 (born in 1940) and his SSN is 555-55-5555. He lives at 456 Fire Lane, Grand Rapids, MI 49505. His filing status is single.

His income for the year is the following:

| | |
|---|---|
| Wages – Walmark (38-9999998) | $5,800 |
| Interest from U.S. savings bonds | 1,700 |
| Bank interest | 1,500 |
| Dividend Income | 8,500 |
| Social Security (non-taxable) | 2,700 |

Michigan Withholding $ 260

George rents his homestead in Grand Rapids and pays $750 per month. His landlord is Gibson Management in Kalamazoo, MI 49001. Prepare his 2015 Michigan income tax return.

Assume the same facts as shown above, with the exceptions listed in each scenario below, and complete a Michigan income tax return for each of the following fact changes:

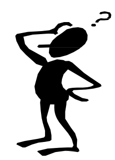
A. George has a roommate, they are both contracted to pay rent. Rent for the house is $900 monthly. His dividend income increased to $9,700.

B. George is age 66 (born in 1949) and pays $350 a month for rent.

# PROBLEM 9:
# MICHIGAN INCOME TAX RETURN WITH PART-YEAR RESIDENTS

Norman and Patty Duke moved to Michigan from Pennsylvania on June 1, 2015, and they reside at 41692 Brunswick Lane, Beverly Hills, MI 48112. They are ages 51 (born in 1964) and 44 (born in 1971) respectively, and their SSNs are 300-30-0300 and 299-29-2929. The Dukes have three children ages 9, 13, and 15. Their income for 2015 is as follows:

| | | |
|---|---|---|
| Norm: | Wages: | |
| | Ajax, Inc. | $85,000 |
| | (Pennsylvania wages $65,000 earned while a PA resident) | |
| | (Michigan wages $20,000) | |
| | Michigan withholding | 785 |
| | Interest received ($175 in Michigan) | 500 |
| | Lottery winnings (MI) | $2,750 |
| Patty: | Not employed | |



The Dukes sold their home in Pennsylvania on September 30, 2015 for a gain of $5,000. The gain is not included in AGI.
The taxable value of their Michigan home is $85,000 and the taxes levied were $2,500.
The school district code is 63010 and the number of days as Michigan residents is 214.

Prepare the Dukes Michigan income tax return.

# PROBLEM 10:
# MICHIGAN INCOME TAX RETURN
# PENSION EXAMPLES

Thomas and Mary Garcia are married, filing joint. Thomas is 66 and Mary 63. Both retired in 2013. She retired under provisions of a 401K retirement plan, which includes only contributions mandated by the plan to elicit an employer match. Thomas receives monthly payments from his State of Michigan pension. They did not itemize their federal tax return in 2015. Thomas also received nontaxable Social Security benefits.

They have the following income for the year:

| | |
|---|---|
| 401K Distributions | $14,050 |
| State of MI Pension | 13,500 |
| Social Security (non-taxable) | 2,900 |
| Bank Interest | $ 650 |

First, prepare a Michigan Income Tax Return based on the above information.

Next, use the facts above but apply the situations listed below:

A. Assume Thomas' pension is from railroad retirement benefits.

B. Assume Thomas' pension is $10,000 from the Michigan National Guard and Mary's 401K distributions for the year are $41,500.

C. Mary's 401K plan did not mandate that any contributions be made. The plan also did not set a retirement age.

D. Thomas was born in 1945. He rolled over his public pension into an IRA account in 2010. No other deposits have been made to the account besides the rollover. Thomas received $13,500 in distributions for the year from his IRA.

E. Thomas is a retired firefighter who did not have Social Security withheld from his wages.

# 2015 Taxpayer Assistance Manual Supplement Answers

## PROBLEM 1

The portion of property taxes that the Powers are able to claim on their *MI-1040CR* is $1,439. Special assessments are excluded from this amount. The administration fee may be claimed as long as it is 1% or less of the tax bill for that period.

The Powers' Total Household Resources (THR) is $14,800. This includes $9,400 of their pension distribution, which is their gross distribution less their original contributions. Also included is $5,850 of their Social Security benefits, Medicare premiums paid through Social Security should not be included in this amount. The Powers are allowed to deduct the health insurance premium of $450 that they paid to Aplac on line 31 of the form.

The Powers are entitled to a $921 homestead property tax credit.

*Calculation*

| | |
|---|---:|
| Summer Tax | $481 |
| Winter Tax | 959 |
| Total Property Taxes | $1,440 |

$14,800 THR x 3.5% = $518 taxes not eligible to claim
$1,439 total property tax – $518 = $921 property tax credit

Since the Powers are age 65 or older and their THR is below $21,000 they are not subject to the senior credit reduction rates and are entitled to 100% of the credit.

**Problem 1A**

Since the Powers are both under the age of 65 Joanna still qualifies to use the exemption for totally and permanently disabled. Their credit would now be calculated on line 39 of the *MI-1040CR* and not subject to any reduction rates. Their credit amount would remain the same at $921.

**Problem 1B**

Since the Powers' taxable benefits from their pension increased, their THR increased to $23,500 and led to a reduced rate for the senior reduction. The amount of the credit they could claim decreased from 100% to 88% due to the senior credit reduction rates (*refer to page 51 of the Taxpayer Assistance Manual*). The Powers would now receive $542 for their property tax credit.

**Problem 1C**

Joanna was considered a "Senior Citizen" when she passed away. As long as John remains unmarried, he is also considered a "Senior Citizen". A claimant or spouse who is 65 or older or is a paraplegic, quadriplegic, hemiplegic, blind, deaf or is totally and permanently disabled, and their THR is $6,000 or less is allowed to use a lower percentage when calculating the amount of property taxes that are not refundable (*refer to page 53 of the Taxpayer Assistance Manual).* In this case, John's income is between $5,001 and $6,000; therefore, he would multiply his THR by 3% instead of 3.5%. Also, since his THR is below $21,000, he is entitled to 100% of the credit or the max of $1,200 and not subject to the senior credit reduction rate. This results in John receiving the maximum credit allowed on the *MI-1040CR* ($1,200).

**Problem 1D**

The Powers were part-year homeowners; therefore, their property taxes must be prorated. Part 3 of the MI-1040CR must be completed to indicate what portion of property taxes the two are able to claim for the time that they lived at their home. The date that they moved in with their son, July 1st, should be used to calculate their portion of the property taxes eligible to be claimed. The September 1$^{st}$ date is not allowed since they did not occupy the home for two months prior to the sale date. They occupied their home for 181 days. The amount of taxes that are eligible to be claimed and entered on line 10 is $720. The Powers would receive a credit of $202.

*Calculation*

181 days occupied / 365 = 50%
$1,449 property taxes x 50% = $720

# PROBLEM 2

Susan paid rent for 12 months at the same apartment. Her wages were not enough to result in additional phase-out limits; as such, the credit she receives on her *MI-1040CR* is $705.

*Calculation*

$9000 annual rent x 20% = $1,800
$17,850 THR x 3.5% = 625
$1,800 property taxes included in rent – 625 = 1,175
$1,175 x 60% (general claimant) = $705 property tax credit

**Problem 2A**

Since Susan lived in service fee housing for 12 months she may claim 10% of her paid rent for property taxes. This is calculated in Part 5 of the *MI-1040CR*. The property taxes eligible to be claimed in this situation ($960) are entered on line 10 of the *MI-1040CR*; do not enter amounts on line 11 or 12 in this circumstance. This results in Susan receiving a credit of $201.

Rent: $800 per month x 12 mos. = $9,600
$9,600 x 10% = $960
$17,850 THR x 3.5% = $625
$960 – 625 = $335
$335 x 60% (general claimant) = $201 property tax credit

**Problem 2B**

Susan lived in a mobile home park for 12 months; as such, she pays a $3 per month specific property tax that is included in her lot rent. If Susan's lot had a shed and she was paying a property tax on that building she would also be able to claim any property taxes levied on the shed on her *MI-1040CR*.

For Part 4, line 52, column E, the $36 (12 months x $3) has been subtracted from the total rent and instead included on line 10 (property taxes on a shed would also be included here). Susan's rent is calculated in Part 4, line 52 at $10,044 (($840 lot rent x 12 = $10,080) – $36 property taxes) and included on line 11 of the *MI-1040CR*.

In addition, Susan's wages increased, subjecting her to the THR phase-out rates. In this case, Susan was only able to claim 80% of her credit, entered on line 43. This means that Susan would be receiving a $272 credit.

Mobile home specific tax = $3 x 12 months = $36 property taxes, line 10
Rent: $840 x 12 months = $10,080 – $36 taxes = $10,044 x 20% = 2,009
Total Rent & Tax: $36 tax + $2,009 rent = $2,045
THR: $42,250 x 3.5% = $1,479
$2,045 – 1,479 = $566

$566 x 60% (general claimant) = $340
$340 x 80% (phase-out) = $272 final property tax credit

**Problem 2C**

For 6 months Susan lived in a facility that pays ad valorem property taxes. This homestead is accounted for in Part 4 of the *MI-1040CR*. The total rent paid at this location is $4,800 ($800/month x 6 months). This amount should be entered on line 11.

For the remainder of the year (6 months) Susan lived in housing that pays service fees in lieu of ad valorem property tax. This homestead is accounted for in Part 5 of the *MI-1040CR*. The portion of the property taxes that Susan can claim for this facility is $435 (($725/month x 6 months) x 10%) and should be entered on line 10.

The total amount of property taxes Susan is eligible to claim on line 13 is $1,395. Susan would receive a credit of $462.

*Calculation*

Property Tax: $725 rent per month x 6 months = $4,350, line 55
$4,350 x 10% = $435 allowed (service fee housing), line 10
Rent: $800 per month x 6 months = $4,800
$4,800 x 20% = $960 rent allowed
Total property tax in rent: $435 + 960 = $1,395 line 13
THR: $17,850 x 3.5% = $625
$1,395 – 625 = $770
$770 x 60% (general claimant) = $462 final property tax credit

# PROBLEM 3

A claimant may be eligible for the Senior Citizen – Alternate Method for Renter calculation if they are over 65 and rent their home. Worksheet 4 in the *MI-1040* instruction booklet should be completed to determine if this method or the regular method for calculating the Homestead Property Tax credit is more beneficial to the claimant(s).

Marjorie's credit computes as follows:

| **Regular Method** | | | **Alternate Method** | | |
|---|---|---|---|---|---|
| Rent/year | | $7,500 | Rent/year | | $7,500 |
| | | X 0.2 | | | |
| | | $1,500 | | | |
| THR | $13,150 | | THR | $13,150 | |
| X 3.5% | X 0.035 | | X 40% | X 0.4 | |
| Amount Not Refundable | | - 460 | Amount Not Refundable | | - 5,260 |
| **Regular Method Credit** | | **$ 1,040** | **Alternate Method Credit** | | **$ 2,240*** |

*THR Calculation*:

| | |
|---|---|
| $ 800 | Interest |
| 6,750 | Pension |
| 6,700 | Social Security |
| (1,100) | Health insurance premium ($275 x 4 quarters) |
| $13,150 | THR |

*Using the Alternate Method (see Worksheet 4 in the instruction booklet) allows for a $1,200 maximum credit, this should be entered on line 44.

*(Another example of this calculation can be found on page 71 of the Taxpayer Assistance Manual.)*

# PROBLEM 4

John is allowed a $53 credit after phase-out reductions are applied. Keep in mind that the percent of disability (determined by the Veteran Administration) is needed in order to determine the Taxable Value Allowance (TVA) found in Table 2 in the *MI-1040CR-2* instruction booklet. After looking at the table and taking into account John's percent of disability, it is found that he will have a $3,500 taxable value allowance. Also, since John's THR is $47,900 his credit amount is reduced to 30%.

*Calculation*

$3,500 TVA (from Table 2) / $21,750 TV = 16% refundable
$1,100 property taxes x 16% = $176
$176 x 30% phase-out percentage = $53 final property tax credit

Note: If John received a Disabled Veterans Exemption on his home, the exempt property would not be eligible to claim when computing the homestead property tax credit.

## Problem 4A

Veterans who rent must complete Part 2 of the *MI-1040CR-2* to compute their taxable value. John's taxable value allowance (TVA) remained the same, but his taxable value of his homestead changed to $24,202 ($7,200 annual rent x 20% = $1,440 / .0595). His percent of tax relief is also reduced to 14% ($3,500 TVA/ $24,202). John is allowed a $61 credit after phase-out reductions are applied ($1,440 x 14% = $202 x 30% = $61).

*(Another example of this calculation can be found on page 73 of the Taxpayer Assistance Manual.)*

# PROBLEM 5

Joan received FIP/MDHHS benefits in 2015. She must prorate her credit to reflect the ratio of income from other sources to total household resources. Use the *MI-1040CR Worksheet 3* in the instruction booklet when computing the proration. Joan would receive a total credit of $168 for 2015.

*Calculation*

Any child support included with FIP/MDHHS income should be separately reported as child support on *MI-1040CR*, line 22.

$6,800 FIP/MDHHS statement – $2,000 child support = $4,800 FIP/MDHHS income

$10,000 x 3.5% = $350
$890 property tax - $350 = $540
$540 x 60% (general claimant) = $324

$10,000 THR – $4,800 FIP/MDHHS = $5,200 non FIP/MDHHS income
$5,200 / $10,000 THR = 52%
$324 x 52% FIP/MDHHS proration = $168 property tax credit

# PROBLEM 6

Arthur and Millie's THR is $13,910. They are allowed four exemptions on their *MI-1040CR-7*, two are personal exemptions and two are for Arthur's deafness and Millie's blindness. With four exemptions, the Watsons' standard allowance from Table A, page 19 is $935 and should be entered on line 35 of the *MI-1040CR-7*. It is important to take note of the income ceilings for each Standard allowance and Alternative credit when preparing the *MI-1040CR-7*. The Watsons' THR does not exceed the income ceiling for either the Standard credit ($26,699) or the Alternative credit method ($24,018). Since their income is below the income ceiling, their claim is for twelve months, and their heat is not included in their rent, they qualify to use either method. Both methods should be computed when claimant(s) qualify to take either credit and the larger amount should be used for the credit. In this case, the Watsons would receive a larger credit by using the standard credit amount (line 37), which computes to $448, instead of the alternative credit amount (line 42), which computes to $308. The standard credit amount of $448 will give Arthur and Millie a larger credit. Please note, the credit amount for both methods is further reduced by the percentage of federal home heating assistance funds available for this year. Therefore, the credit is subject to further proration.

**Problem 6A**

In this scenario, Arthur and Millie moved into a new homestead where their heating costs are included in their rent. Box 7 should be checked to indicate that their heating costs are included in their rent. Since the Watsons' heat was included in their rent, they are no longer eligible to use the Alternate credit method when calculating their credit on the *MI-1040CR-7*. The Watsons' standard allowance and THR remained the same, but now they must complete line 38 and reduce their computed standard credit by 50 percent. The Watsons' standard credit amount computes to $224. Please note, this amount is further reduced by the percentage of the federal home heating assistance funds available for this year. Therefore, the credit is subject to further proration.

# PROBLEM 7

The couple's AGI is $39,100, which includes wages ($25,500), pension ($12,850), and bank interest ($750). The Earles should claim three standard exemptions. Since Donald's mother does not provide more than 50% of her own support, she is considered their dependent.

The Earles do not have any additions from *Schedule 1*, but they do have subtractions totaling $13,600, which are entered on the *MI-1040*, line 13. The subtractions are determined as follows:

(1) Since one or more of the Earles were born before 1946, the *Michigan Pension Schedule Form 4884* should be completed. The questions in "*Which Section of Form 4884 Should I Complete?*" in the *MI-1040* instruction booklet (page 16) are used to determine which section on page 2 of *Form 4884* should be completed. After answering the questions, it was determined that the Earles should complete section A of *Form 4884*. The $12,850 amount from Section A, line 15 is entered on *Schedule 1*, line 25

(2) Due to one of the Earles being born before 1946, they are eligible to take a $750 Dividend/Interest/Capital gains deduction. This is entered on *Schedule 1*, line 26.

The Earles had $625 state withholding from their wages from Barker Products; therefore, *Schedule W* should be completed to demonstrate the amount of each withholding. The amount from *Schedule W* should be entered on the *MI-1040* line 29.

The Earles have also chosen to make monetary contributions to a few programs. Therefore, a *Michigan Voluntary Contributions Schedule Form 4642* should be completed with the $25 amount entered on the *MI-1040*, line 22.

The Earles are entitled to a $26 refund in 2015.

*Calculation*

$39,100 AGI – 13,600 Schedule 1 subtraction = $25,500 income subject to tax
$25,500 – 12,000 exemption allowance = $13,500 taxable income
$13,500 x 4.25% = $574 tax
$574 tax + $25 voluntary contributions = $599 total tax liability
$599 tax liability – 625 Michigan withholding = $26 refund

**Problem 7A**

The Earles have no dependents so they are allowed two exemptions. Donald was born in 1948; he is grouped into Tier 2 for retirement benefits. When Tier 2 filers reach the age of 67, they become eligible for the Michigan Standard Deduction. The Earles can take a $40,000 standard deduction, which can be used against **<u>all</u>** income.

Unlike in the previous scenario when we calculated an amount on *Form 4884,* the Earles should now complete *Schedule 1, line 24,* and should not complete *Form 4884*. In 2015, the Michigan Standard Deduction is $20,000 for single filers and $40,000 for married filing jointly (limited by any subtraction for military compensation and pension benefits and railroad or Michigan National Guard pension benefits). The Earles are able to deduct all of their income ($39,100); leaving the Earles with $25 tax liability from their voluntary contributions. The Earles are due a refund of $600 for 2015.

**Problem 7B**

Sandra and Donald Earle are allowed two standard exemptions and one special exemption for an exemption allowance of $10,600. Their AGI remains the same at $39,100. Both the Earles were born in 1952 which means that that they are in Tier 2. Again, the questionnaire on page 16 of the *MI-1040* instruction booklet should be completed to determine which section of *Form 4884* should be completed. It is determined that they should complete Section C. The Earles are allowed to report $12,850, the deductible amount of their pension, on *Schedule 1,* line 25.

The Earles' tax liability exceeds their refundable credits and payments; therefore, they owe $65 to the State of Michigan ($665 tax + $25 voluntary contributions - $625 withholding).

**Problem 7C**

In this scenario, the taxpayer is single and has a special exemption. He is eligible for a $6,600 exemption allowance. AGI is $47,350 (due to the inclusion of the taxable city income tax refund and the increase in pension). The city income tax refund was included in federal AGI and is allowed as a subtraction on *Schedule 1*, line 16.

The taxpayer was born in 1949, which puts him in Tier 2. A single taxpayer in Tier 2 is allowed a $20,000 pension deduction. The taxpayer received $21,000 for his pension in 2015; therefore, $1,000 of that pension is taxable. Again, the questionnaire on page 16 of the *MI-1040* should be completed, after completion it is determined that Section C of *Form 4884* should be filled out. The amount of $20,000 from *Form 4884* should be entered on the *Schedule 1,* line 25. The $20,100 *Schedule 1* total is carried to the *MI-1040* line 13.

The taxpayer had the same withholdings and volunteer contributions as the previous scenarios. The taxpayer had a higher pension distribution and $1,000 of the $21,000 distributed is taxable by the State of Michigan. This increased the taxpayer's total tax liability to $903 ($878 tax + $25 voluntary contributions). There were no taxes withheld from the pension throughout the year so the withholdings remain the same at $625 for the wages received. This means that the taxpayer now owes $278 on their *MI-1040*.

**Problem 7D**

Donald's AGI is $39,100 and he claims $8,000 for two exemption allowances. He is born in 1953, which puts him in Tier 3 in regard to his pension. Those in Tier 3 are generally not allowed a pension deduction, meaning their entire pension is taxable. *Form 4884* states that anyone born after December 31, 1952 is not entitled to a pension subtraction and should not complete *Form 4884*.** Donald has no items to subtract on the *Schedule 1* and the schedule is not needed.

Donald's tax liability is $1,322, resulting in a tax due of $697. Since the taxpayer is not entitled to a pension subtraction, he should have had income tax withheld from his pension benefits or he should have remitted estimated tax payments during the year. Anyone who can reasonably expect their annual tax amount to exceed their withholdings and credits by more than $500 should make estimated tax payments. Failure to do so may result in additional interest and penalties. In this case, Donald should have made estimated tax payments to the Michigan Department of Treasury since his tax due exceeds $500.

** If Donald's pension benefits were from employment with a government agency that was not covered under the Social Security Act, he would be eligible to deduct up to $15,000 of his pension benefits. He would complete Section D of *Form 4884.*

Individuals who reach age 62 in 2015 (born in 1953) who receive pension benefits from employment with governmental agencies not covered by the Social Security Act, may be eligible for up to a $15,000 pension subtraction or up to $30,000 if both spouses on a jointly filed return received pension benefits from an "uncovered" governmental agency.

# PROBLEM 8

George's AGI is $17,500; which includes wages, interest from U.S. saving bonds, bank interest, and dividend income. George is allowed to subtract the interest from U.S. savings bonds on the *Schedule 1*, line 10. Since George was born in 1940 (Tier 1), he is allowed a subtraction for his dividend, interest, and capital gain income on *Schedule 1*, line 26. In 2015, the maximum deduction for a single person is $11,104; therefore, George is allowed to subtract all of his bank interest and dividend income for a total of $10,000 on the MI-1040 line 13.

George had wages and income tax was withheld from his wages. The amount withheld should be entered on the *Schedule W*; the total of the *Schedule W* should be carried to the *MI-1040* line 29.

A Homestead Property Tax Credit should be completed for George. He should include his wages, all interest and dividend income, and his nontaxable social security income in his Total Household Resources (THR), totaling $20,200. Part 1, Section A of the form, should be completed since George is a senior claimant. Part 4 of the form should be used to report George's rent. His THR is below $21,000 and is not subject to the senior credit reduction. George would receive the full amount of his credit, which computes to $1,093. This amount is reported on *MI-1040* line 25.

On his *MI-1040*, George has a total tax liability of $77, a property tax credit of $1,093, and Michigan tax withholdings of $260. George is eligible for a refund of $1,276.

*Calculation*

$17,500 AGI - $4,000 exemption allowance - $11,700 Schedule 1 subtraction = $1,800 taxable income.
$1,800 x 4.25% = $77 tax
$77 tax – $1,093 property tax credit – $260 withholding = $1,276 refund

**Problem 8A**

In this problem, George has a roommate who is also contracted to pay rent, rent was increased to $900 monthly, and his dividend income increased to $9,700.

George's AGI is $18,700. On the *Schedule 1*, George would still subtract the $1,700 savings bond income on line 10 and he would have a deduction on line 26 for dividend, interest, and capital gain income. George's bank interest, and dividend income is $11,200. George is a single claimant and may only deduct a maximum of $11,104 for the senior dividend, interest, and capital gain deduction; therefore, $96 ($11,200 - $11,104) of the income is actually taxable. After totaling *Schedule 1*, $12,804 ($11,104 + $1,700) is carried to the *MI-1040* line 13.

Again, George reported $260 in withholdings on *Schedule W*, which is carried to the *MI-1040* line 29.

For the Homestead Property Tax Credit, George now has a roommate who is also contracted to pay rent. George may claim $450 a month or $5,400 for the year, not the entire $900 a month. With the increase in dividend income, George's THR is increased to $21,400. George is now subject to the senior credit reduction rates. George can only claim 96% of the credit (entered on line 37). George's property tax credit computes to $318 and is carried to the *MI-1040* line 25.

George has an increased total tax liability of $81, due to the dividend income that could not be deducted, a property tax credit of $318, and Michigan tax withheld of $260. George is entitled to a refund of $497.

**Problem 8B**

In this scenario, George's age has changed to 66 and his rent has been reduced. George's AGI is $17,500. Due to George's age, he is no longer allowed to take the deduction for dividend, interest, and capital gains income for those who are born after 1946. This means that his $10,000 of bank interest and dividend income is completely taxable, but he is still able to deduct his interest from savings bonds on *Schedule 1*, line 10. The amount of $1,700 should be carried from the *Schedule 1* to the *MI-1040* line 13.

George reported $260 in withholdings on *Schedule W*, which should be carried to the *MI-1040* line 29.

George's rent is now $350 a month for a total of $4,200 for the year. His THR is $20,200 so he is not subject to the senior credit reduction rates. George is entitled to a $133 credit, which should be carried to the *MI-1040*, line 25.

Since none of George's bank interest or dividend income was deductible he has an increased tax liability of $502. His property tax credit is $133 and his withholding remained the same at $260. George has a tax due of $109. George's credit and withholding were not enough to offset his total tax liability.

# PROBLEM 9

The Dukes were part-year residents; they have five standard exemptions for a total of $20,000 (which will be prorated later). Their AGI is $88,250. Included in their AGI is wages ($85,000), interest income ($500), and lottery winnings ($2,750).

Their AGI must be divided into an amount that was earned and allocated to Michigan and an amount that was earned and allocated to Pennsylvania. The *Schedule NR* allows the taxpayer to appropriately designate income attributable to Michigan from income attributable to Pennsylvania. After all income has been considered, Michigan income totals $22,925 (Column B) and Pennsylvania income totals $65,325 (Column C). The income attributable to Pennsylvania must be carried to *Schedule 1*, line 13 so that a subtraction can be made from AGI; from *Schedule 1* the amount is carried to the *MI-1040,* line 13.

Part-year residents must prorate their Michigan exemption allowance based on the ratio of Michigan income to total income, computed on Schedule NR. The Dukes are allowed an exemption allowance of $5,200 as a standard deduction since they were part-year residents ($22,925 / $88,250 = 26% x $20,000). This amount should be entered on the *MI-1040,* line 15.

The amount of income tax withheld from Michigan earnings is reported on the *Schedule W* and carried to the *MI-1040* line 29.

Since the Dukes lived in Michigan for at least six months, they are eligible to claim a Michigan Homestead Property Tax Credit. The property taxes must be prorated for the time that the Dukes owned and occupied their new home in Michigan. Part 3 of the *MI-1040CR* should be completed. The Dukes were Michigan residents for 214 days and are able to claim $1,475 of the property taxes that were levied on their home in 2015 (214/365 = 59% x $2,500). Also, the Dukes were part-year residents so they must annualize their THR to determine if they are subject to phase-out reductions. Their THR is $27,625 consisting of $20,000 wages earned while a
Michigan resident, the $175 interest and $5,000 capital gain received while a Michigan resident, and the $2,450 lottery winnings (the amount that exceeds $300). The gain from the sale of their home in Pennsylvania is included in THR because the sale and the gain occurred while the Dukes were Michigan residents.

The annualized amount would compute to $43,924 (214/365 x $27,625 = $16,299 + $27,625). **Please note**: the annualized THR of $43,924 does not appear anywhere on the *MI-1040CR*. It is only used for reference to determine if the Dukes must reduce their property tax credit under the phase-out reduction rates. Because the phase-out reductions begin with a THR of $41,001, the Dukes are subject to phase-out reduction rates. The Dukes must refer to Table B (*refer to the Phase-Out Chart on page 54 of the Taxpayer Assistance Manual*) to determine the percentage of credit for which they are eligible. That percentage, 70%, is entered on the *MI-1040CR* line 43. The Dukes are eligible for a $214 property tax credit, which is carried to the *MI-1040* line 25.

The Dukes' total tax liability is $753, their property tax credit is $214, and their Michigan tax withheld is $785.  The Dukes are entitled to a $246 refund.

*Calculation*

| | |
|---|---|
| $ 88,250 | AGI |
| (65,325) | Out-of-state income |
| (5,200) | Exemption allowance |
| $ 17,725 | Taxable income |
| x 4.25% | Tax rate |
| $ 753 | Tax liability |
| (214) | Property tax credit |
| (785) | Withholding |
| $ 246 | |

*Exemption allowance*

22,925 Michigan income / 88,250 total income = 26%
5 allowances x $4,000 = $20,000 x 26% = $5,200

*Annualized THR*

214 days in Michigan / 365 days = 59%
$27,625 THR x 59% = $16,299
$27,625 THR + $16,299 = $43,924 annualized THR
70% phase-out reduction

## PROBLEM 10

Thomas is 66 and Mary is 63. The couple's AGI is $28,200, which includes the following:

| | |
|---|---|
| 401K Distributions | 14,050 |
| Public Pension | 13,500 |
| Bank interest | 650 |

The Garcias are in Tier 2 for retirement benefits, as such, their retirement benefit subtraction is limited to $40,000 for a joint return. Since the Garcias fall within Tier 2, *Form 4884* should be completed. Use the questions in "*Which Section of Form 4884 Should I Complete?*" in the MI-1040 instruction booklet (page 16) to determine which section on page 2 of *Form 4884* should be completed. After answering the questions, it was determined that the couple should complete Section C of *Form 4884*. The $27,550 amount from line 27, Section C is entered on *Schedule 1*, line 25.

The couple is ineligible for a dividends, interest, or capital gains deduction as they were both born after 1945. Regardless, the Garcias do not owe any tax and are not entitled to a refund this tax year.

*Calculation*:

$28,200 AGI– $8,000 Exemption – $27,550 Subtractions = $0 income subject to tax

**Problem 10A**

Thomas and Mary's AGI remains the same. As before, Thomas and Mary are in Tier 2. Thomas' pension is from the railroad which is not subject to taxation in Michigan. Thomas' pension of $13,500 should be subtracted from their taxable income on *Schedule 1*, line 11.

*Form 4884* should be completed and only Mary's 401K distributions should be listed. Using the questions in "*Which Section of Form 4884 Should I Complete?*" in the *MI-1040* instruction booklet (page 16), to determine which section (A, B, C, or D) to complete, on *Form 4884*. After answering the questions, it was determined that Section C of *Form 4884* should be completed. Since Thomas has railroad retirement benefits, the Garcias must complete Worksheet 2 in the *MI-1040* instruction book. This Worksheet is used to determine if the Garcias' pension limit subtraction of $40,000 must be further reduced by Thomas' railroad retirement benefits. In this scenario, the Garcias would still be allowed a pension subtraction limit of $40,000. Mary's 401K distributions of $14,050 are less than the maximum pension deduction allowed; $14,050 would be entered on *Form 4884*, line 27 and transferred to *Schedule 1*, line 25. Once again, the Garcias do not owe any tax and are not entitled to a refund for the tax year.

**Problem 10B**

In this scenario, the Garcias' AGI increased to $52,150. Michigan National Guard and military retirement benefits are exempt from taxation in Michigan. Thomas' $10,000 Michigan National Guard pension is subtracted on *Schedule 1*, line 11.

As in the previous scenarios, Thomas and Mary are in Tier 2 in regard to retirement benefit deductions. *Form 4884* should be completed and only Mary's 401K distributions should be listed. The questions in "*Which Section of Form 4884 Should I Complete?*" in the MI-1040 instruction booklet (page 16) should be used to determine which section (A, B, C, or D) to complete, on *Form 4884*. After answering the questions, it is determined that the couple should complete Section C of *Form 4884*. Since Thomas has a pension from the Michigan National Guard, the Garcias must complete Worksheet 2 in the *MI*-1040 instruction book. After completing Worksheet 2, it is found that the Garcias would still receive a pension deduction limit of $40,000. As Mary's distributions are $41,500, the maximum pension deduction of $40,000 should be entered on line 27. This total should be transferred to *Schedule 1*, line 25. The total subtractions reported on *Schedule 1* are $50,000; this total should be transferred to line 13 of the MI-1040. The Garcias would not owe any tax nor would they be receiving a refund for the tax year.

**Problem 10C**

The Garcias' AGI is $28,200. It is important to note that distributions from a 401(k) or 403(b) plan are qualified distributions to the extent that they are attributable to the employer's contributions and 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. Therefore, Mary's distributions from her 401K are not considered a qualifying pension eligible for subtraction from taxable income. Mary's 401K distributions for the year are not allowed as a subtraction from AGI and her 401K distributions would not be included on *Form 4884*.

Thomas' pension from the State of Michigan is a qualified pension is eligible for subtraction from taxable income. The Garcias had no additions for *Schedule 1*. *Form 4884* should be completed and only Thomas' pension should be listed. Using the questions in "*Which Section of Form 4884 Should I Complete?*" in the *MI-1040* instruction booklet (page 16) to determine which section (A, B, C, or D) to complete, on *Form 4884*. After answering the questions, it was determined that the couple should complete Section C of *Form 4884*. As the Garcias are in Tier 2 in this scenario, their maximum pension deduction is $40,000. Thomas' pension of $13,500 is less than the maximum deduction and should be included on line 27 of *Form 4884*. This total should be transferred to *Schedule 1*, line 25. As there are no other subtractions, the total subtraction of $13,500 is transferred to the *MI-1040*, line 13.

Mary did not have taxes withheld from her 401K and the Garcias did not pay estimated taxes

*Calculation*:

$28,200 AGI
(13,500) Subtractions
(8,000) Exemptions
$6,700 Taxable Income

$6,700 Taxable income X 4.25% Tax rate = $285 Tax liability

The Garcias will have a tax due of $285 for the tax year.

**Problem 10D**

Magen v Dep't of Treasury, Mich App, Docket No. 302771 (2013) may affect the tax treatment of distributions from an individual retirement account (IRA) created by a rollover of funds from another retirement plan. The published decision held that distributions from an IRA are not taxable where the entire principle in the IRA originally came from a tax-free (public) retirement plan, now subject to the restrictions for age or year of birth.

As Thomas was born in 1945 and is considered to be a Tier 1 retiree with a public pension that is potentially exempt from Michigan tax, a "look through" for Thomas' funding of the IRA is required. The original pension was from the State of Michigan, making it a public pension. An IRA funded with pretax dollars is a federally taxable pension, as is a 401K rolled into an IRA. With consideration to Magen, Thomas' IRA distributions attributed to the rollover would be characterized the same as a public pension and would be exempt from tax in Michigan.

The Garcias would use the questions in "*Which Section of Form 4884 Should I Complete?*" in the *MI-1040* instruction booklet (page 16) to determine which section (A, B, C, or D) to complete, on *Form 4884*. After answering the questions, it is determined that the couple would complete Section A of *Form 4884*. Thomas' IRA distribution of $13,500 should be entered as a public pension on *Form 4884*, line 9. Mary's 401K distribution of $14,050 should be entered on *Form 4884*, line 11. The total retirement and pension benefits subtraction calculates to $27,550. This total should be transferred to *Schedule* 1, line 25. Although the Garcias are considered Tier 1 retirees, they do not qualify for the interest, dividends, and capital gains deduction on the *Schedule* 1. The maximum interest, dividends, and capital gains deduction allowed must be reduced by public and private pension and retirement benefits entered on *Schedule* 1, line 25. A subtraction of $27,550 should be carried to the *MI-1040*, line 13. The Garcias would not have a tax due for the tax year, nor would they receive a refund.

Include with the return documentation showing the original funding source for the IRA to confirm its status as a public pension.

**Problem 10E**

The Garcias' AGI is $28,200. Taxpayers born between January 1, 1946 and January 1, 1954, who have reached the age of 62 and who receive, or whose spouse receives, pension or retirement benefits from employment with a governmental agency that was not covered by the federal Social Security Act (SSA) are entitled to a greater retirement/pension deduction or Michigan Standard Deduction. The maximum pension deduction limit or Michigan Standard Deduction is increased by $15,000 for each individual that receives an SSA exempt retirement or pension. The "uncovered" taxpayer may deduct a maximum of $35,000 in pension income on a single return and a maximum of $55,000 in pension income on a joint return (a maximum of $70,000 is allowed on a joint return if both spouses receive pensions that were "uncovered").

Thomas' pension as a firefighter was received from his previous employment with a local governmental agency that was not covered under the Social Security Act (taxes for social security were never deducted from his wages). The Garcias qualify for an increased pension deduction limitation of $55,000 as they are filing a joint return and one of them had an "uncovered" pension. When completing *Schedule 1*, the Garcias would normally complete line 23, but in this scenario they should also check box C (Check if SSA Exempt) to indicate that Thomas' pension is SSA exempt.

Thomas and Mary would use the questions in "*Which Section of Form 4884 Should I Complete?"* in the *MI-1040* instruction booklet (page 16) to determine which section (A, B, C, or D) to complete, on *Form 4884*. After answering the questions, it is determined that the couple should complete Section C of *Form 4884*. It is important to note that the instructions for *Form 4884*, line 27, state that if *Schedule* 1, line 23C and or 23F was completed, the individual(s) must account for the increase in their maximum pension deduction limit on this line. The total of Thomas and Mary's pensions is $27,550, which is less than the maximum pension deduction limit of $55,000. Their total retirement benefits of $27,550 should be entered on *Form* 4884, line 27, and transferred to *Schedule 1*, line 25. The total subtraction of $27,550 is transferred to the *MI-1040* line 13. The Garcias' tax return for the year would show a zero tax due and a zero refund.

Documentation verifying a pension is "uncovered" should be included, especially in situations where the additional $15,000 pension exemption is utilized.

# STATE TEST

The following pages are a test that may be used by coordinators and instructors to give their volunteers extra training and/or evaluate their volunteers' readiness to prepare Michigan tax returns.

**Note:** Treasury does not require that a volunteer pass this test prior to preparing tax returns. For answers to this test, coordinators or instructors may contact the Volunteer Helpline at 1-888-860-8389, or for any technical questions, call (517) 636-4230. Please select option 1 at the voice menu.

# TOTAL HOUSEHOLD RESOURCES EXERCISE

Which of the following must be included in Total Household Resources?
Yes (Y) or No (N)

A. Gambling winnings in another state ______
B. Proceeds received from a reverse mortgage ______
C. Social Security received for a minor child ______
D. Gain on the sale of a residence ______
E. Original contributions shown on a 1099R ______
F. Workers' compensation ______
G. Chore services received ______
H. Relief in kind (nongovernmental under $300) ______
I. Alimony received ______
J. Child support received ______
K. Winnings from a casino in Michigan ______
L. FIP paid to grandparents for care of grandchildren ______
M. Cancellation of debt ______
N. Unemployment compensation ______
O. Scholarships ______
P. Food stamps (Bridge card) ______
Q. Military pay ______
R. Life insurance proceeds from death of a spouse ______
S. Tax exempt Michigan municipal bond interest ______
T. Gross income of mother-in-law who lives rent free in taxpayer's home ______
U. State income tax refund received ______
V. Savings account withdrawals ______
W. Assistance received from daughter to pay rent or mortgage ______

Which of the following may be deducted from Total Household Resources? (Y or N)

A. Gambling losses ______
B. Medical insurance premiums paid by the taxpayer ______
C. A net operating loss ______
D. Roth IRA contributions ______
E. Alimony paid ______
F. Child support paid ______
G. Contributions to an Illinois public radio station ______
H. Moving expenses (out of Michigan) ______
I. A net loss on the sale of a personal residence ($3,000 or less) ______
J. Claim of right (deducted from AGI) ______
K. Self-employment tax deduction ______

## MULTIPLE CHOICE

(Choose the correct answer from the following, circling the corresponding letter)

1. The maximum homestead property tax yearly refund is?

   A. $1,300 B. $2,000 C. $1,200 D. $1,500

2. After April 18, 2016, which is the oldest year property tax return a taxpayer may still file for a refund?

   A. 2011 B. 2013 C. 2009 D. 2012

3. How long during the year must a taxpayer be a resident of Michigan to claim a homestead credit?

   A. Full year B. 6 months C. 6 weeks D. No requirement

4. Which of the following may not be claimed on the Form MI-1040CR?

   A. County taxes
   B. Collection fees up to 1 percent of property taxes
   C. Property taxes from prior years

5. How much is the homestead property tax refund for a Senior Citizen who has total household resources of $12,500 and pays annual rent of $5,400? (Assume the property is taxable and the rent does not include meals or other services).

   A. $385 B. $642 C. $800 D. $400

6. A single taxpayer who lives in a nursing home and still owns a vacant family home may claim which of the following on his or her Form MI-1040CR?

   A. Nursing home taxes only
   B. Family home taxes only
   C. Both the taxes on the nursing home and the family home
   D. The larger of the taxes on the nursing home or the family home

7. If a taxpayer moves into a new home on August 1, 2015, and is billed $500 for summer taxes on the home sold and $1,000 in winter taxes on the home purchased, how much of the property taxes may the taxpayer claim for credit? (Assume the winter taxes on the home sold were $1,500 and the summer taxes on the home purchased were $400.)

   A. $1,700 B $1,852 C. $1,748 D. $1,200

8. Which of the following is not included in household income?

    A. Social Security
    B. Unemployment
    C. Food stamps (Bridge card)
    D. Disability income

9. In 2015, Linda Little, who was born before 1946, filed a federal return as a single individual. Included in her AGI was $38,000 received from the State of Michigan retirement plan and $15,000 received from a GM retirement plan. What is Linda's total allowable pension subtraction?

    A. $45,120 B. $49,811 C. $53,000 D. 38,000

10. Which of the following may not be subtracted on the Form MI-1040?

    A. U.S. Treasury Bond interest
    B. Business income earned in another state
    C. Military pay
    D. Charitable contributions

11. Jim Dandy, a single individual age 76, received a pension of $8,500 from the city of Gladwin during the year, interest income of $2,850, and dividend income of $1,200. What is his Senior Citizen Interest, Dividend, and Capital Gain deduction?

    A. $4,450 B. $11,104 C. $4,050 D. $2,604

# TEST PROBLEM

Jon and Andrew Adams are brothers who live together in the house they inherited from their father at 31506 Greenway, Swartz Creek, Michigan 48345. Jon's SSN is 202-22-2222 and Andrew's is 303-33-3333. Jon's age is 83 and Andrew's age is 85, and they do not qualify for any special exemptions. Their incomes are as follows:

| | **Jon** | **Andrew** |
|---|---|---|
| Social Security | $4,850 | $7,550 |
| Pension: | | |
| Ford Motor | 2,900 | |
| IRA | | 5,250 |
| Interest and Dividends | 250 | 1,585 |

Assume for this exercise that the social security income was not included in their federal AGI. The property taxes on their house are $2,300 and the taxable value is $60,000. They heat with gas and were billed $1,770 for the year ending October 31, 2015. The heat is in Andrew's name.

Prepare the necessary Michigan tax forms for the two brothers.