



**2020 Michigan
Taxpayer
Assistance Manual**

SUPPLEMENT

NEW FOR 2020

Automatic extension of first and second quarter estimated tax payments for 2020.

In response to the COVID-19 pandemic, all Individual Income Tax (IIT) payments due on or after April 15, 2020 and before July 15, 2020 were automatically extended until July 15, 2020. Estimated tax payments for the 2020 tax year that were due on April 15, 2020 and June 15, 2020 were, therefore, extended to July 15, 2020. For additional information, refer to the *Automatic Extension of State and Income Tax Filing Deadlines* notice published on April 17, 2020.

Legislation

2020 PA 77 Taxpayer Protection Act

2020 PA 77 amends the Revenue Act by inserting the Taxpayer Protection Act, MCL 205.4a. Beginning January 1, 2021, the Taxpayer Protection Act imposes various duties upon certain paid preparers who prepare individual, fiduciary, and claimant returns under part 1 of the Michigan Income Tax Act. Tax preparers that fail to meet these duties may be subject to penalties, which include a nondiscretionary penalty computed for each return filed or a circuit court injunction to stop the preparer from filing additional returns. The Act applies to all returns filed after December 31, 2020, regardless of the tax year. Information on complying with the Taxpayer Protection Act will be published on the Department of Treasury's (Treasury) Web site and in the forms and instructions booklet for the *Individual Income Tax Return MI-1040* (MI-1040).

2020 PA 65 Treatment of Pension Subtraction for Surviving Spouses

PA 65 of 2020, as enacted into law on March 27, 2020, generally allows a surviving spouse to claim the pension subtraction under Section 30(1)(f) that would have applied based on the date of birth of the older of two spouses. To qualify for this treatment, a subtraction under Section 30(1)(f) must have been claimed on a joint return for the tax year in which the spouse died and the surviving spouse must not have remarried. A surviving spouse born after 1945 who has reached the age of 67 and has not remarried may, for tax years after December 31, 2019, elect to take the greater of the standard deduction against all types of income or the pension subtraction under Section 30(1)(f) based on the date of birth of the older spouse.

Increased Exemption

The personal exemption amount for 2020 is \$4,750. The special exemption for taxpayers who are deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled for 2020 is \$2,800.

Changed Forms

2020 Michigan Pension Schedule (Form 4884) now includes the computation for a subtraction for taxpayers born after 1952 who have reached the age of 67. Qualifying taxpayers may deduct \$20,000 for a single filer or \$40,000 for a joint return against all income or elect to take a deduction

for Social Security benefits and the Michigan personal exemption. In addition, a surviving spouse who is age 67, has not remarried, and filed a joint return in the year of a deceased older spouse's death who claimed the subtraction using the decedent's year of birth may qualify for a pension or retirement subtraction. For qualifying surviving spouses, the subtraction for a single filer is based upon the decedent's year of birth and is available against all income.

Michigan Excess Business Loss (Form MI-461), *Michigan Excess Business Loss Continuation Schedule* (Form 5606), and *Michigan Net Operating Loss Deduction* (Form 5674) are not available for tax year 2020 due to federal changes in the recent federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. These forms will be available again for tax year 2021.

Michigan Net Operating Loss Schedule (MI-1045) was amended to accommodate federal changes under the CARES Act. Taxpayers may carry back a net operating loss (NOL) or elect to carry it forward. Once the election is made, it is irrevocable.

New Forms

Michigan Net Operating Loss Carryback Refund Request (Form 5603-CARES Act) computes a subtraction to accommodate potential NOL deductions under the CARES Act. The CARES Act changed the NOL deduction carryback limitation from two to five years and suspended the excess business loss computation. Form 5603-CARES Act should be used for tax years 2018, 2019 and 2020.

SUMMARY OF CHANGES FOR 2019

| | |
|----------------------------------------------------------|-----------|
| Tax Rate | 4.25% |
| Personal Exemption | \$4,750 |
| Special Exemption | \$2,800 |
| Qualified Disabled Veteran Deduction | \$400 |
| Stillbirth Exemption | \$4,750 |
| Pension Deduction: | |
| Single Filer | |
| Born before 1946: private pension limit | \$53,759 |
| Born in 1946-1952: Standard deduction against all income | \$20,000 |
| Born after 1952, pension not deductible* | 0 |
| Joint Filers | |
| Born before 1946: private pension limit | \$107,517 |
| Born in 1946-1952: Standard deduction against all income | \$40,000 |
| Born after 1952, pension not deductible* | 0 |
| Senior Interest, Dividend, and Capital Gains | |
| Single Filer (not available for senior born after 1945) | \$11,983 |
| Joint Filers (not available for senior born after 1945) | \$23,966 |

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

SUMMARY OF CHANGES FOR PRIOR YEARS

| | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---------------------------------------------------------|-------------|-------------|-------------|-------------|
| Tax Rate | 4.25% | 4.25% | 4.25% | 4.25% |
| Personal Exemption | \$4,000 | \$4,000 | \$4,050 | \$4,400 |
| Special Exemption | \$2,600 | \$2,600 | \$2,700 | \$2,700 |
| Qualified Disabled Veteran Deduction | \$400 | \$400 | \$400 | \$400 |
| Pension Deduction | | | | |
| Single Filer: | | | | |
| Born before 1946: private pension limit | \$49,861 | \$50,509 | \$51,570 | \$52,808 |
| Born after 1945 and age 67 or older: | | | | |
| Standard deduction against all income | \$20,000 | \$20,000 | \$20,000 | \$20,000 |
| Born 1946 through 1952 and age 66 or less | \$20,000 | \$20,000 | \$40,000 | \$20,000 |
| Born after 1952, pension not deductible | 0 | 0 | 0 | 0 |
| Joint Filers: | | | | |
| Born before 1946: private pension limit | \$99,723 | 101,019 | \$103,140 | \$105,615 |
| Born after 1945 and age 67 or older: | | | | |
| Standard deduction against all income | \$40,000 | \$40,000 | \$40,000 | \$40,000 |
| Born 1947 through 1952 and age 66 or less | \$40,000 | \$40,000 | \$40,000 | \$40,000 |
| Born after 1952, pension not deductible | 0 | 0 | 0 | 0 |
| Senior Interest, Dividend, and Capital Gains | | | | |
| Single Filer (not available for senior born after 1945) | \$11,115 | \$11,259 | \$11,495 | \$11,771 |
| Joint Filers (not available for senior born after 1945) | \$22,229 | \$22,518 | \$22,991 | \$23,542 |

Michigan Home Heating Credit, MI-1040CR-7

| <u>Exemptions</u> | <u>Standard Allowance</u> | <u>Income Ceiling</u> |
|-------------------|-----------------------------------|-------------------------------------|
| 0 or 1 | \$492 | \$14,043 |
| 2 | \$665 | \$18,986 |
| 3 | \$837 | \$23,900 |
| 4 | \$1,010 | \$28,842 |
| 5 | \$1,182 | \$33,757 |
| 6 | \$1,355 | \$38,700 |
| | + \$173 for each exemption over 6 | + \$4,943 for each exemption over 6 |

| <u>Exemptions</u> | <u>Maximum Income</u> |
|-------------------|-----------------------|
| 0 or 1 | \$14,849 |
| 2 | \$19,982 |
| 3 | \$25,119 |
| 4 or more | \$26,091 |

Maximum heating costs: \$2,870

Note: For additional information on topics in this chapter, visit www.michigan.gov/taxes select “Individual Income Tax,” and “Reports and Legal” tab for a list of resources.

**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 111-00-1111 and 222-00-2222, respectively. They owned and lived in their house at 312 W. Outer Drive, Lansing, MI 48910, for the entire year. The property tax bills on their homestead are:

| <u>SUMMER 2020</u> | <u>WINTER 2020</u> | | |
|-----------------------|--------------------|--------------------|------------|
| Summer Taxes | \$475 | Winter Taxes | \$950 |
| Special Assessment: | | | |
| Sidewalk | <u>+ 175</u> | | |
| Total | 650 | Total | 950 |
| Administrative Fee | <u>+ 5</u> | Administrative Fee | <u>+ 9</u> |
| Total | 655 | Total | \$959 |
| State Equalized Value | 55,000 | | |
| Taxable Value | \$31,000 | | |

Their annual income is:

| <u>SOCIAL SECURITY</u> | <u>PENSION</u> | | |
|---------------------------------|----------------|------------------------|--------------|
| Paid by check or direct deposit | \$5,850 | Gross Distributions | \$11,700 |
| Medicare premiums deducted | <u>600</u> | Original contributions | <u>2,300</u> |
| Total Benefits for 2020 | \$6,450 | Taxable Benefits | \$9,400 |

For this example, assume the Social Security is taxable on the federal return. They paid \$450 in 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 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, 2020 and sold their home on September 1, 2020. 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 999-00-9999. 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 \$52,250 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 333-00-3333. 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 | <u>500</u> |
| Total Benefits for 2019 | \$ 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., Lansing, MI 48910, paying \$625 per month for the entire year. Assume the Social Security is taxable on the federal return. Prepare the MI-1040CR for Marjorie.



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

John Hogan is 59 years old and single. His SSN is 444-00-4444. 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 \$50,000 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 a General Claimant on the MI-1040CR, he would receive no Property Tax Credit (see computation below).

| | |
|-----------------------|----------------|
| Property Taxes | \$ 1,100 |
| THR (\$57,900) x .032 | <u>- 1,853</u> |
| | \$0 |

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 | <u>6,800</u> |
| Total Household Resources | \$10,000 |



Per the 2020 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 2020 are \$890 and the taxable value is \$23,350. Joan's SSN is 666-00-6666 and her address is 1452 Dawson, Lansing, MI 48910. 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 heating statements from Consumers Energy for the 12-consecutive-month period of November 1, 2019 through October 31, 2020, is \$1,970. They own their home and heat it with natural gas. Prepare a Home Heating Credit for the Watsons.

Their SSNs are 888-00-8888 and 777-00-7777, and they reside in their home at 3607 Weaver, Royal Oak, MI 48073.

- A. Compute the heating credit for the Watson's if they moved on January 15, 2020 to 660 W. Foster, Ferndale, MI 48221, where heat is now included in their rent.

The Watson's landlord has confirmed that their apartment is heated with electric heat provided by Consumer's Energy.

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

Donald and Sandra Earle were born in 1944 and 1954, respectively. Their SSNs are 221-00-3344 and 112-00-1212 and they reside at 200 River, Saginaw, MI 48602. Donald's mother is considered a dependent.

Their income for the year is from the following:

| | |
|---------------------------------------------------|-----------|
| Donald's Wages | \$ 25,500 |
| City of Highland Park Pension (not SSA exempt) | \$ 12,850 |
| Bank Interest | 750 |



| 2020 W-2 Information | <u>Gross</u> <u>Wages</u> | <u>Fed</u> <u>W/H</u> | <u>State</u> <u>W/H</u> |
|----------------------------|------------------------------|--------------------------|----------------------------|
| 55-2222222 Barker Products | \$25,500 | \$775 | \$625 |

In addition, they want to donate \$10 to the Military Family Relief Fund 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. Same facts as above, except Donald was born in 1947 and they have no dependents.
- B. Donald is single, born in 1947 and deaf. He received a \$100 2019 city income tax refund which was included in his 2020 AGI, his pension is now \$21,000, and he has no dependents.
- C. Donald is single, born in 1954, 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 78 (born in 1942) and his SSN is 555-00-5555. 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 2020 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 per month. His dividend income increased to \$11,400.
- B. George is age 66 (born in 1954) 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, 2020, and they reside at 41692 Brunswick Lane, Lansing, MI 48910. They are ages 51 (born in 1969) and 44 (born in 1976) respectively, and their SSNs are 300-00-0300 and 299-00-2929. The Dukes have three children ages 9, 13, and 15. Their income for 2020 is as follows:

| | |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Norm: | Wages: Ajax, Inc. \$90,000 (Pennsylvania wages \$65,000 earned while a PA resident) (Michigan wages \$25,000) |
| | 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, 2020 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 was born in 1952 and Mary in 1955. Both retired in 2013. She retired under provisions of a 401K retirement plan, which includes only Mary's contributions mandated by the plan to elicit an employer match and the employer contributions. Thomas receives monthly payments from his State of Michigan pension. They did not itemize their federal tax return in 2020. Thomas also received nontaxable Social Security benefits.

They have the following income for the year:

| | |
|-------------------------------|----------|
| 401K Distributions | \$28,450 |
| State of MI Pension | \$19,500 |
| Social Security (non-taxable) | \$2,900 |
| Bank Interest | \$850 |

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. 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.
- D. Assume Thomas was born in 1945 (Tier 1) and Mary was born in 1948 (Tier 2). Thomas died in 2019, Mary has not remarried, and they claimed a subtraction for retirement and pension benefits on a jointly filed return in 2019. Assume the same income as above, except the Social Security benefits are attributable to Mary.

**PROBLEM 11:
MICHIGAN INCOME TAX RETURN
WITH PENSION FROM A GOVERNMENTAL AGENCY NOT COVERED BY
THE FEDERAL SOCIAL SECURITY ACT**

Tilly Strong is a retired firefighter whose employment was not covered by the Social Security Act. She was born in 1958 and retired on June 13, 2016. Her SSN is 111-00-1111. Tilly's filing status is single. Tilly receives a pension distribution from her employment as a firefighter in the amount of \$25,000.

Her additional income for the year is as follows:

| | |
|----------------------|---------|
| Bank Interest | \$3,500 |
| Dividend Income | 9,800 |
| | |
| Michigan Withholding | 1,275 |

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

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

- A. Tilly is married to Joe (his SSN is 112-00-1100). Tilly is the primary filer on their jointly filed MI-1040. Joe was born in 1952 and he receives a retirement distribution from Everyday Motors in the amount of \$25,000.

- B. Tilly retired from her job as a firefighter on December 9, 2012. Her pension distribution for the tax year is \$30,000. No Michigan withholding was taken out of Tilly's pension distribution.

Problem 12:

MICHIGAN INCOME TAX RETURN WITH PENSION NEW - TIER 3 MICHIGAN STANDARD DEDUCTION

Trevor is a single filer. He was born in 1953 and has reached age 67. His SSN is 222-00-2222. Trevor receives a public pension distribution of \$35,000 and earned wages from a part-time job of \$4,500. Trevor has withholding of \$425.

First, prepare a Michigan Income Tax Return based on the above information. Next, use the facts above, but apply the situation listed below:

- A. Trevor is married and filing a joint return with Emory. Emory is born in 1954 and retired in 2014. Her SSN is 333-00-3333. Emory receives benefits from SSA exempt employment of \$12,000 and private pension of \$30,000.

2019 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 \$965 homestead property tax credit.

Calculation

| | |
|----------------------|------------|
| Summer Tax | \$480 |
| Winter Tax | <u>959</u> |
| Total Property Taxes | \$1,439 |

$\$14,800 \text{ THR} \times 3.2\% = \474

$\$1,439 \text{ total property tax} - \$474 = \$965 \text{ property tax credit}$

The Powers use Section A of the MI-1040CR to compute their 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 using Section B of the MI-1040CR and is not subject to any reduction rates. Their credit amount would remain the same at \$965.

Problem 1B

Since the Powers' taxable benefits from their pension increased, their THR is now \$23,500 and leads to a reduced rate due to the senior reduction. The amount of the credit they could claim decreased from 100% to 88% due to the senior credit reduction rates (*refer MI-1040CR Table A in the MI-1040 booklet*). The Powers would now receive \$605 for their property tax credit.

Problem 1C

Joanna was considered a “Senior Citizen” when she passed away. As long as John does not remarry, 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 MI-1040CR Table 2 in the MI-1040 booklet*). In this case, John’s income is between \$5,001 and \$6,000; therefore, he would multiply his THR of \$5,850 by 3% instead of 3.2%, which equals \$176. Also, since his THR is below \$21,000, he is entitled to 100% of the credit or the max of \$1,500 and is not subject to the senior credit reduction rate. This results in John receiving a credit of \$1,263 on his MI-1040CR.

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 they are able to claim for the time they lived at their home. The date 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 1st date is not allowed since they did not occupy the home for two months prior to the sale date. They occupied their home for 182 days. THR is \$14,800 after adjustments. The amount of taxes that are eligible to be claimed and entered on line 10 is \$716. The Powers would receive a credit of \$242.

Calculation:

$$182 \text{ days occupied} / 366 = 49.73\%$$
$$\$1,439 \text{ property taxes} \times 49.73\% = \$716$$

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 \$899.

Calculation

$\$9000 \text{ annual rent} \times 23\% = \$2,070$
 $\$17,850 \text{ THR} \times 3.2\% = \571
 $\$2,070 \text{ property taxes included in rent} - \$571 = 1,499$
 $\$1,499 \times 60\% \text{ (general claimant)} = \$899 \text{ property tax credit}$

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 \$233.

$\text{Rent: } \$800 \text{ per month} \times 12 \text{ mos.} = \$9,600$
 $\$9,600 \times 10\% = \960
 $\$17,850 \text{ THR} \times 3.2\% = \571
 $\$960 - \$571 = \$389$
 $\$389 \times 60\% \text{ (general claimant)} = \$233 \text{ property tax credit}$

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 \$323 credit.

$\text{Mobile home specific tax} = \$3 \times 12 \text{ months} = \$36 \text{ property taxes, line 10}$
 $\text{Rent: } \$840 \times 12 \text{ months} = \$10,080 - \$36 \text{ taxes} = \$10,044 \times 23\% = 2,310$
 $\text{Total Rent \& Tax: } \$36 \text{ tax} + \$2,310 \text{ rent} = \$2,346$
 $\text{THR: } \$52,250 \times 3.2\% = \$1,672$
 $\$2,346 - 1,672 = \674

$\$674 \times 60\%$ (general claimant) = \$404
 $\$404 \times 80\%$ (phase-out) = \$323 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 ($\$725/\text{month} \times 6 \text{ months}$) x 10%) and should be entered on line 10.

The total amount of property taxes Susan is eligible to claim on line 13 is \$1,539. Susan would receive a credit of \$581.

Calculation

Property Tax: $\$725 \text{ rent per month} \times 6 \text{ months} = \$4,350$, line 55
 $\$4,350 \times 10\% = \435 allowed (service fee housing), line 56 and line 10
Rent: $\$800 \text{ per month} \times 6 \text{ months} = \$4,800$
 $\$4,800 \times 23\% = \$1,104$ property tax in rent allowed
Total property tax in rent: $\$435 + 1,104 = \$1,539$ line 13
THR: $\$17,850 \times 3.2\% = \571
 $\$1,539 - 571 = \968
 $\$968 \times 60\%$ (general claimant) = \$581 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 5 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:

| <u>Regular Method</u> | | <u>Alternate Method</u> | |
|------------------------------|------------------------|--------------------------------|-------------------------|
| Rent/year | \$7,500 | Rent/year | \$7,500 |
| | <u>X 0.23</u> | | |
| | \$1,725 | | |
| THR | \$13,150 | THR | \$13,150 |
| X 3.2% | <u>X 0.032</u> | X 40% | <u>X 0.4</u> |
| Amount Not Refundable | - <u>421</u> | Amount Not Refundable | - <u>5,260</u> |
| Regular Method Credit | <u>\$ 1,304</u> | Alternate Method Credit | <u>\$ 2,240*</u> |

THR Calculation:

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

*Using the Alternate Method (see Worksheet 5 in the instruction booklet) allows for a \$1,500 maximum credit, this should be entered on line 44.

(Another example of this calculation can be found on page 76 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 \$57,900 his allowed credit amount is reduced to 30%.

Calculation

$\$3,500 \text{ TVA (from Table 2)} / \$21,750 \text{ TV} = 16.09\% \text{ refundable}$
 $\$1,100 \text{ property taxes} \times 16.09\% = \177
 $\$177 \times 30\% \text{ phase-out percentage} = \$53 \text{ final property tax credit}$

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 \$27,832 ($\$7,200 \text{ annual rent} \times 23\% = \$1,656 / .0595$). His percent of tax relief is also reduced to 12.58% ($\$3,500 \text{ TVA} / \$27,832$). John is allowed a \$62 credit after phase-out reductions are applied ($\$1,656 \times 12.58\% = \$208 \times 30\% = \$62$).

(Another example of this calculation can be found on page 77 of the Taxpayer Assistance Manual.)

PROBLEM 5

Joan received FIP/MDHHS benefits in 2020. She must prorate her credit to reflect the ratio of income from other sources to total household resources. Use the MI-1040CR *Worksheet 4* in the instruction booklet when computing the proration. Joan would receive a total credit of \$178 for 2020.

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 3.2% = \$320

\$890 property tax – \$320 = \$570

\$570 x 60% (general claimant) = \$342

\$10,000 THR – \$4,800 FIP/MDHHS = \$5,200 non FIP/MDHHS income

\$5,200 / \$10,000 THR = 52%

\$342 x 52% FIP/MDHHS proration = \$178 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 \$1,010 and should be entered on line 38 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 (\$28,842) or the Alternative credit method (\$26,091). 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 a claimant(s) qualifies to use either method and the larger amount should be claimed for the credit. In this case, the Watsons would receive a larger credit by using the standard credit amount (line 40), which computes to \$523, instead of the alternative credit amount (line 45), which computes to \$308. The standard credit amount of \$523 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 10 should be checked to indicate that their heating costs are included in rent. Since the Watsons' heat is 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 41 and reduce their computed standard credit by 50 percent. The Watsons' standard credit amount computes to \$262. 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 exemptions since Donald's mother is 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 are used to determine which section on page 2 of Form 4884 is completed. It is determined that the Earles complete section A of Form 4884. The \$12,850 amount from Section A, line 16 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 of 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 charitable programs. Therefore, a *Michigan Voluntary Contributions Schedule* Form 4642 is completed with the \$25 amount entered on the MI-1040, line 22.

The Earles are entitled to a \$122 refund in 2020.

Calculation

$\$39,100 \text{ AGI} - \$13,600 \text{ Schedule 1 subtraction} = \$25,500 \text{ income subject to tax}$
 $\$25,500 - \$14,250 \text{ exemption allowance} = \$11,250 \text{ taxable income}$
 $\$11,250 \times 4.25\% = \478 tax
 $\$478 \text{ tax} + \$25 \text{ voluntary contributions} = \$503 \text{ total tax liability}$
 $\$503 \text{ tax liability} - \$625 \text{ Michigan withholding} = \122 refund

Problem 7A

The Earles have no dependents so they are allowed two exemptions. Donald was born in 1947; he is grouped into Tier 2 for retirement benefits. All Tier 2 filers have reached the age of 67 and are eligible for the Tier 2 Michigan Standard Deduction. The Earles can take a \$40,000 standard deduction, which can be used against **all** income. Unlike in the previous scenario when we calculated an amount on Form

4884, the Earles should now complete Schedule 1, line 23, and should not complete Form 4884. In 2020, the Michigan Standard Deduction is \$20,000 for single or married filing separate 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 2020.

Problem 7B

In this scenario, the taxpayer is single and has a special exemption. He is eligible for a \$7,550 exemption allowance. AGI is \$47,350 (due to the inclusion of the taxable city income tax refund and the increase in pension). The \$100 city income tax refund included in federal AGI is allowed as a subtraction on Schedule 1, line 16.

The taxpayer was born in 1947, which puts him in Tier 2. All Tier 2 filers have reached the age of 67 and are eligible for the Tier 2 Michigan Standard Deduction. Donald can take a \$20,000 standard deduction, which can be used against **all** income. Donald completes Schedule 1, line 23, and should not complete Form 4884. In 2020, the Tier 2 Michigan Standard Deduction is \$20,000 for single filers or married filing separate 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 \$20,100 Schedule 1 total is carried to MI-1040, line 13.

The taxpayer had the same withholdings and volunteer contributions as the previous scenarios. The taxpayer had a higher pension distribution, which increased the taxpayer's total tax liability to \$862 (\$837 tax + \$25 voluntary contributions). The withholdings remain the same at \$625 for the wages received. This means that the taxpayer now owes \$237 on his MI-1040.

Problem 7C

Donald's AGI is \$39,100 and he claims \$9,500 for two exemption allowances. He is born in 1954, which puts him in Tier 3 in regard to his pension. Those in Tier 3 are generally not allowed a pension deduction and their entire pension is taxable. Donald has no items to subtract on the Schedule 1. Therefore, the Schedule 1 is not needed.

Donald's tax liability is \$1,258, resulting in a tax due of \$633. 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.

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 1942 (Tier 1), he is allowed a subtraction for his dividend, interest, and capital gain income on Schedule 1, line 26. In 2020, the maximum deduction for a single person is \$11,983; therefore, George is allowed to subtract all of his bank interest and dividend income for a total of \$10,000 on Schedule 1, line 26.

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 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 \$1,424. This amount is reported on MI-1040, line 25.

On his MI-1040, George has a total tax liability of \$45, a property tax credit of \$1,424, and Michigan tax withholdings of \$260. George is eligible for a refund of \$1,639.

Calculation

\$17,500 AGI - \$11,700 Schedule 1 subtraction - \$4,750 exemption allowance =
\$1,050 taxable income.

\$1,050 x 4.25% = \$45 tax

\$45 tax - \$1,424 property tax credit - \$260 withholding = \$1,639 refund

Problem 8A

In this problem, George has a roommate who is also contracted to pay rent, rent for the house was increased to \$900 monthly, and his dividend income increased to \$11,400.

George's AGI is \$20,400. 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 \$12,900. George is a single claimant and may only deduct a maximum of \$11,983 for the senior dividend, interest, and capital gain deduction; therefore, \$917 (\$12,900 - \$11,983) of the income is actually taxable. After totaling Schedule 1, \$13,683 (\$11,983 + \$1,700) is carried to MI-1040, line 13.

Again, George reported \$260 in withholdings on Schedule W, which is carried to 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 \$23,100. George is now subject to the senior credit reduction rates. George may only claim 88% of the credit (entered on line 37). George's property tax credit computes to \$443 and is carried to MI-1040, line 25.

George has a total tax liability of \$84, due to the dividend income that could not be deducted, a property tax credit of \$443, and Michigan tax withheld of \$260. George is entitled to a refund of \$619.

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 before 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 MI-1040, line 13.

George reported \$260 in withholdings on Schedule W, which should be carried to 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 \$320 credit, which should be carried to MI-1040, line 25.

Since none of George's bank interest or dividend income was deductible, he has an increased tax liability of \$470. His property tax credit is \$320, and his withholding remained the same at \$260. George has a refund of \$110.

PROBLEM 9

The Dukes were part-year residents; they have five standard exemptions for a total of \$23,750 (which will be prorated later). Their AGI is \$93,250. Included in their AGI is wages (\$90,000), 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 \$27,925 and Pennsylvania income totals \$65,325. 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 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 \$7,113 since they were part-year residents ($\$27,925 / \$93,250 = 29.95\% \times \$23,750$). This amount should be entered on MI-1040, line 15. The proration is computed on Schedule NR.

The amount of income tax withheld from Michigan earnings is reported on the Schedule W and carried to 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 \$1,462 of the property taxes that were levied on their home in 2020 ($214/366 = 58.47\% \times \$2,500$). 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 \$32,625 consisting of \$25,000 in wages earned while a Michigan resident, the \$175 interest, \$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 \$55,789 ($366/214 = 1.71 \times \$32,625$). **Please note:** the annualized THR of \$55,789 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 \$51,001, the Dukes are subject to phase-out reduction rates. The Dukes must refer to Table B in the MI-1040 instruction booklet to determine the percentage of credit for which they are eligible. That percentage, 50%, is entered on the MI-1040CR line 43. The Dukes are eligible for a \$126 property tax credit, which is carried to MI-1040, line 25.

The Dukes' total tax liability is \$885, their property tax credit is \$126, and their

Michigan tax withheld is \$785. The Dukes are entitled to a \$26 refund.

Calculation

| | |
|----------------|------------------------------|
| \$93,250 | AGI |
| (65,325) | Out-of-state income |
| <u>(7,113)</u> | Prorated Exemption allowance |
| \$20,812 | Taxable income |
| x 4.25% | Tax rate |
| \$ 885 | Tax liability |
| (126) | Property tax credit |
| <u>(785)</u> | Withholding |
| \$26 | Refund |

Exemption allowance

\$27,925 Michigan income / \$93,250 total income = 29.95%
5 allowances x \$4,750 = \$23,750 x 29.95% = \$7,113

Annualized THR

366 days / 214 days in Michigan = 1.71
\$32,625 THR x 1.71 = \$55,789
\$55,789 annualized THR results in a 50% phase-out reduction

Property tax credit

214 days occupied / 366 = 58.47%
\$2,500 property taxes x 58.47% = \$1,462

\$32,625 THR x 3.2% = \$1,044
\$1,462 property tax – \$1,044 = \$418
\$418 x 60% (general claimant) = \$251
\$251 x 50% phase-out reduction = \$126 property tax credit

PROBLEM 10

Thomas was born in 1952 and Mary in 1955. The couple's AGI is \$48,800, which includes the following:

| | |
|--------------------|----------|
| 401K Distributions | \$28,450 |
| Public Pension | \$19,500 |
| Bank interest | \$850 |

The Garcias are in Tier 2 for retirement benefits, as such, they are eligible for the Tier 2 Michigan Standard Deduction, against all income, of \$40,000 for a joint return.

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:

$$\$48,800 \text{ AGI} - \$40,000 \text{ Subtractions} - \$9,500 \text{ Exemption} = \$0 \text{ taxable income}$$

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' entire railroad pension of \$19,500 (both Tier 1 and Tier 2) should be subtracted from their taxable income on Schedule 1, line 11, even if some of the benefits were reported as Social Security benefits on the federal return.

In this scenario, the Garcias would still be allowed the Tier 2 Michigan Standard Deduction against all income of \$40,000 for a joint return. However, the \$19,500 subtraction on the Schedule 1, line 11 reduces the standard deduction. The Garcias claim a reduced standard deduction against all income of \$20,500 (\$40,000 - \$19,500) on Schedule 1, line 23. 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 \$52,350. 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 and eligible for the standard deduction against all income of \$40,000 for a joint return. However, the \$10,000 subtraction on the Schedule 1, line 11 reduces the standard deduction. The Garcias claim a reduced standard deduction against all income of \$30,000 (\$40,000 - \$10,000) on Schedule 1, line 23. Mary did not have taxes withheld from her 401K and the Garcias did not pay estimated taxes.

Calculation:

\$52,350 AGI
(40,000) Subtractions
(9,500) Exemptions from two exemption allowances
\$2,850 Taxable Income

\$2,850 Taxable income x 4.25% Tax rate = \$121 Tax liability

The Garcias will have a tax due of \$121 for the tax year.

Problem 10C

Magen v. Dep't of Treasury, 299 Mich.App. 566, 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 principal in the IRA originally derived from a tax-free (public) retirement plan, now subject to the restrictions for age or year of birth. Essentially, the source of the rollover determines the eligibility for subtraction.

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 to determine which section (A, B, C, or D) to complete, on Form 4884. It is determined that the couple should complete Section A of Form 4884. Thomas' IRA distribution of \$19,500 should be entered as a public pension on Form 4884, line 10. Mary's 401K distribution of \$28,450 should be entered on Form 4884, line 12. The total retirement and pension benefits subtraction calculates to \$47,950. 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 \$47,950 should be carried to 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 10D

In this scenario Thomas is now deceased. Mary is at least 67, has not remarried, and claimed a subtraction for retirement and pension benefits on a jointly filed return with Thomas in the year of his death. Mary may now elect to claim the Tier 2 Michigan Standard Deduction, or a retirement and pension benefit subtraction based on Thomas' year of birth (subject to the limits available for a single filer); this election is made each year.

To make this determination, Mary reads "*Retirement Benefits Election for Tier 2 and Tier 3 Surviving Spouses*" from the MI-1040 instruction booklet and uses the "*Which Deduction Do I Claim*" guide for assistance. Mary's Tier 2 Michigan Standard Deduction for a single filer is \$20,000 (line a of the guide). Mary's retirement and pension benefit subtraction is determined by Thomas' year of birth (Tier 1) and she is directed to complete Form 4884 using Section A to arrive at \$47,950 for a single filer (line b of the guide). Mary elects to claim a Tier 1 retirement and pension subtraction with single filer limits, because it is larger

When Mary completes Form 4884, she must also check the box on line 7d, indicating that she is a surviving spouse who has reached the age of 67, has not remarried, and claimed a subtraction for retirement and pension benefits on a jointly filed return with the decedent in the year they died. When completing Form 4884, Section A, Mary enters \$19,500 on line 10 and \$28,450 on line 12. The total retirement and pension benefits subtraction calculates to \$47,950. This total should be transferred to Schedule 1, line 25. A subtraction of \$47,950 should be carried to MI-1040, line 13. Mary would not have a tax due for the tax year, nor would she receive a refund.

PROBLEM 11

Tilly's AGI is \$38,300. She was born in 1958 and is in Tier 3 in regard to retirement and pension benefits. 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 *unless* they have reached age 62 and receive pension benefits from employment with a governmental agency not covered by the Social Security Act (SSA). They may be eligible for a retirement and pension deduction up to \$15,000. If both spouses on a joint return have retirement benefits from an "uncovered" governmental agency, the maximum deduction is \$30,000.

Since Tilly is single and receiving pension benefits from employment with a governmental agency not covered by the SSA (taxes for social security were never deducted from her wages) she would qualify for a pension deduction up to \$15,000. When completing Schedule 1, Tilly would fill out line 22 and check box C (Check if filer received benefits from SSA exempt employment) to indicate that her pension is SSA exempt. She would then complete the questions in "*Which Section of Form 4884 Should I Complete?*" located in the MI-1040 instruction booklet to determine which section (A, B, C, or D) to complete, on Form 4884. It is determined that she should complete Section D of Form 4884. Tilly's pension distribution exceeds the maximum \$15,000 pension deduction. The maximum \$15,000 is entered in Section D, line 29 and then entered on Schedule 1, line 25.

As the taxpayer is not entitled to subtract her entire pension distribution, she had income tax withheld from her pension distribution. Schedule W should be completed to demonstrate the amount of the withholding. The amount from Schedule W should be entered on MI-1040, line 29.

Tilly is entitled to a \$487 refund in 2020.

Calculation:

\$38,300 AGI – \$15,000 Schedule 1 subtraction = \$23,300 income subject to tax
\$23,300 – \$4,750 exemption allowance = \$18,550 taxable income
\$18,550 x 4.25% = \$788 tax
\$788 tax liability – \$1,275 Michigan withholding = \$487 refund

Problem 11A

Tilly and Joe's AGI is \$63,300. Since Joe was born in 1952 and has reached age 67, the taxpayers are considered to be in Tier 2. They will no longer deduct retirement or pension benefits but are now eligible for a deduction against all income (Michigan Standard Deduction). Taxpayers in Tier 2 who have reached age 67 and who receive, or whose spouse receives (when filing jointly), 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 Michigan Standard Deduction. The Michigan Standard Deduction is against all income with a maximum of \$35,000 on a single return and a maximum of \$55,000 on a joint return (a maximum of \$70,000 is allowed on a joint return if both spouses receive pensions that were “uncovered”).

Tilly’s pension distribution was from her employment with a local governmental agency that was not covered under the SSA. The taxpayers qualify for an increased Tier 2 Michigan Standard Deduction limitation of up to \$55,000 as they are filing a joint return and one of them has an “uncovered” pension. When completing Schedule 1, they would answer the questions in the line-by-line instructions for line 22, answering “yes” to question 1, continuing to question 4 and answering “yes: check box 22C” (Check if filer received benefits from SSA exempt employment) to indicate that Tilly’s pension is SSA exempt.

Tilly and Joe should not complete Form 4884 since they are only eligible for the Tier 2 Michigan Standard Deduction. It is important to note that the instructions for Schedule 1, line 22C and/or 22G state that if you checked one of the boxes, your standard deduction is increased by \$15,000 (if both boxes are checked, the standard deduction is increased by \$30,000). Tilly and Joe would enter \$55,000 on Schedule 1, line 23 and transfer the total subtraction of \$55,000 to MI-1040, line 13.

Schedule W should be completed to demonstrate the amount of the withholding. The amount from Schedule W should be entered on MI-1040, line 29.

The taxpayers have no taxable income and are entitled to a \$1,275 refund in 2020.

Calculation:

$\$63,300 \text{ AGI} - \$55,000 \text{ Schedule 1 subtraction} = \$8,300 \text{ income subject to tax}$
 $\$8,300 - \$9,500 \text{ exemption allowance} = \0 taxable income
 $\$0 \times 4.25\% = \0 tax
 $\$0 \text{ tax liability} - \$1,275 \text{ Michigan withholding} = \$1,275 \text{ refund}$

Problem 11B

Starting in 2018, taxpayers who were born after 1945, were retired as of January 1, 2013, and received SSA exempt retirement pension from a governmental agency are allowed a retirement and pension deduction.

As Tilly retired on December 9, 2012, she qualifies to take a pension deduction up to \$35,000 for a single filer that received a pension distribution from SSA exempt employment with a governmental agency.

Tilly's AGI is \$43,300.

When completing Schedule 1, Tilly would fill out line 22 and check box 22C (Check if filer received benefits from SSA exempt employment) and box 22D (Check if retired as of 01-01-2013 and born after 1952) to indicate that her pension is SSA exempt. She would then complete the questions in "*Which Section of Form 4884 Should I Complete?*" located in the MI-1040 instruction booklet to determine which section (A, B, C, or D) to complete, on Form 4884. It is determined that she should complete Section C of Form 4884. Tilly would also check the box on line 6 of Form 4884 to indicate that she was born after 1952, retired as of January 1, 2013, and received pension benefits from SSA exempt employment with a governmental agency.

Tilly's pension is \$30,000, which is less than the maximum pension deduction limit of \$35,000. Following the line-by-line instructions for Form 4884, Section C, line 28, her total retirement benefits of \$30,000 should be entered on Form 4884, line 28, and transferred to Schedule 1, line 25. The total subtraction of \$30,000 is transferred to MI-1040, line 13.

Tilly's return would compute to a tax due of \$378.

Calculation:

\$43,300 AGI – \$30,000 Schedule 1 subtraction = \$13,300 income subject to tax
\$13,300 – \$4,750 exemption allowance = \$8,550 taxable income
\$8,550 x 4.25% = \$363 tax
\$363 tax liability – \$0 Michigan withholding = \$363 tax due

Problem 12:

Trevor's AGI is \$39,500. He was born in 1953 and is in Tier 3 in regard to retirement and pension benefits. Those in Tier 3 who have reached the age of 67 are eligible for the Tier 3 Michigan Standard Deduction.

Trevor may deduct his personal exemption amount and taxable Social Security benefits, military compensation (including retirement benefits), Michigan National Guard retirement benefits and railroad retirement benefits included in adjusted gross income (AGI), or claim a deduction against all income, of \$20,000 for a return filed as single or married filing separately, or \$40,000 for a married filing joint return. To determine your deduction, complete Worksheet 2 in the MI-1040 booklet. This worksheet ensures the taxpayer receives the maximum benefit allowed.

Calculations for Worksheet 2:

1. \$20,000 (for a single filer)
2. \$0 (no Military or taxable railroad retirement benefits)
3. \$0 (no Social Security or military pay benefits)
4. \$4,750 (personal exemption)
5. \$4,750 (add lines 2 through 4)
6. \$15,250 (subtract line 5 from line 1. Enter result and carry to Schedule 1, line 24)

Trevor carries the Schedule 1 subtractions to MI-1040, line 13. He continues to report his personal exemption allowance on MI-1040, line 15. Trevor has withholding of \$1,012. Schedule W should be completed to demonstrate the amount of the withholding. The amount from Schedule W should be entered on MI-1040, line 29. Trevor's return computes to a refund of \$183.

Calculation:

$\$39,500 \text{ AGI} - \$15,250 \text{ Schedule 1 subtraction} = \$24,250 \text{ income subject to tax}$
 $\$24,250 - \$4,750 \text{ exemption allowance} = \$19,500 \text{ taxable income}$
 $\$19,500 \times 4.25\% = \829 tax
 $\$829 \text{ tax liability} - \$1,012 \text{ Michigan withholding} = \183 refund

Problem 12A

The Hanes' AGI is \$73,500. Both Trevor and Emory are in Tier 3. As Trevor has reached the age of 67, the taxpayers are eligible for a Tier 3 Michigan Standard Deduction. They complete Schedule 1, line 22, checking the box on line 22G. The taxpayers must complete Worksheet 2 in the MI-1040 booklet.

Since the Hanes are filing a joint return and Emory is receiving a pension distribution from SSA exempt employment with a governmental agency their Tier 3 Michigan Standard Deduction is increased by \$15,000.

Calculation for Worksheet 2:

1. \$55,000 (for a joint return and one spouse with SSA exempt employment)
2. \$0 (no Military or taxable railroad retirement benefits)
3. \$8,500 (taxable Social Security benefits included in AGI)
4. \$9,500 (personal exemption)
5. \$18,000 (add lines 2 through 4)
6. \$37,000 (subtract line 5 from line 1. Enter result and carry to Schedule 1, line 24)

The Hanes continue to report their taxable Social Security benefits on Schedule 1, line 14 and their Tier 3 Michigan Standard Deduction of \$37,000 on Schedule 1, line 24. They carry their total subtractions of \$45,500 to MI-1040, line 13. The Hanes continue to report their person exemption allowance on MI-1040, line 15. The Hanes' had withholding of \$1,012. Schedule W should be completed to demonstrate the amount of the withholding. The amount from Schedule W should be entered on MI-1040, line 29. Trevor and Emory's return computes to a

Calculation:

$\$73,500 \text{ AGI} - \$45,500 \text{ Schedule 1 subtraction} = \$28,000 \text{ income subject to tax}$
 $\$28,000 - \$9,500 \text{ exemption allowance} = \$18,500 \text{ taxable income}$
 $\$18,500 \times 4.25\% = \786 tax
 $\$786 \text{ tax liability} - \$1,012 \text{ Michigan withholding} = \226 refund

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 in excess of \$300 _____
- B. Proceeds received from a reverse mortgage _____
- C. Social Security received for a minor child _____
- D. Nontaxable 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 in excess of \$300 _____
- 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 payroll deduction on wages _____
- C. A net operating loss _____
- D. Roth IRA contributions _____
- E. Student loan interest (deducted in AGI) _____
- F. Child support paid _____
- G. Contributions to a Michigan public radio station _____
- H. Moving expenses (nonmilitary) _____
- I. A net loss on the sale of a personal residence (\$3,000 or less) _____
- J. Claim of right (deducted in 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 refund for 2020 is?
A. \$1,300 B. \$2,000 C. \$1,200 D. \$1,500
2. After April 18, 2020, which is the oldest year property tax return a taxpayer may still file for a refund?
A. 2015 B. 2018 C. 2017 D. 2016
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. Village 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. \$842 C. \$867 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, 2020, 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. \$1,652 C. \$1,748 D. \$1,500

8. Which of the following is not included in total household resources?
- A. Social Security
 - B. Unemployment
 - C. Food stamps (Bridge card)
 - D. Disability income
9. In 2020, 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. \$53,759 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. \$11,983 C. \$4,050 D. \$3,483

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 and Andrew split all expenses related to their home and its upkeep, evenly. Jon's SSN is 202-00-2222 and Andrew's is 303-00-3333. 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:

| | <u>Jon</u> | <u>Andrew</u> |
|------------------------|------------|---------------|
| Social Security | \$4,850 | \$7,550 |
| Pension: | | |
| Ford Motor | 2,900 | |
| IRA Distribution | | 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, 2020. The heat is in Andrew's name, but Jon pays half of the heat bill and kept proof of these payments.

Prepare the necessary Michigan tax forms for the two brothers.