

2018 Michigan Income Tax Withholding Guide

Withholding Rate: 4.25% Personal Exemption Amount: \$4,050

INCOME TAX WITHHOLDING:

Every Michigan employer required to withhold federal income tax under the Internal Revenue Code, must be registered for and withhold Michigan income tax. Nonprofit organizations that are exempt from income tax, such as charitable, religious and governmental organizations, must withhold tax from compensation paid to their employees. Employers located outside Michigan that have employees who work in Michigan must register and withhold Michigan income tax from all employees working in Michigan.

Companies that pay pension and retirement benefits are required to withhold Michigan income taxes on taxable payments to retirees. In general, payers must withhold 4.25 percent on all distributions that are subject to Michigan income tax unless the payer receives a withholding certificate from a retiree. Pension and retirement benefits include payments made from a pension, individual retirement account, annuity, profit-sharing, stock bonus or other deferred compensation plan. Also included are annuity payments or endowment or life insurance contract payments issued by a life insurance company.

Additional withholding information, including the current personal exemption amount, withholding tax rates, and income tax withholding tables, is available on Treasury's Web site at www.michigan.gov/taxes.

IMPORTANT INFORMATION

Withholding Tables on the Web. Withholding rate tables are not provided in this publication, but are available at Treasury's Web site www.michigan.gov/withholding.

Who Must Withhold?

Every employer in this state required under the Internal Revenue Code (IRC) to withhold federal income tax on compensation of an individual must also withhold Michigan income tax. In addition, payers of pension and retirement benefits subject to Michigan income tax must withhold on the taxable amount. Withholding may also be required by eligible production companies, and casino, race meeting, and track licensees, which should use this guide. See MCL 206.703 for more information on those requirements.

Under Public Act 158 of 2016, *Flow-Through Withholding* (Form 4918) is no longer required for flow-through entities (FTEs) with tax years beginning after June 30, 2016. Treasury will no longer support the processing of forms or withholding payments for FTEs with tax years beginning after that date. For FTEs with tax years beginning before July 1, 2016, a full year's withholding payments and annual return should be filed.

Who Is an Employer?

An employer is defined in the *Federal Employer's Tax Guide, Circular E*, as any person or organization for whom an individual performs any service as an employee. This includes any person or organization paying compensation to a former employee after termination of his or her employment.

Nonprofit organizations that are exempt from income tax, such as charitable, religious, and government organizations, must withhold tax from compensation paid to their employees.

Employers located outside Michigan who have employees working in Michigan must register with Treasury and withhold Michigan income tax from all employees working in Michigan. This applies to both Michigan residents and nonresidents (see page 4, "**Reciprocal Agreements**").

Employers located in Michigan assigning a Michigan resident employee to work temporarily in another state must

withhold Michigan income tax from compensation paid to the employee for work done in another state.

Who Is an Employee?

An employee is an individual who performs services for an employer who controls what will be done and how it will be done. It does not matter that the employer permits the employee considerable discretion and freedom of action, as long as the employer has the legal right to control both the method and the result of the services.

For further clarification of the term "employee," see the *Federal Employer's Tax Guide, Circular E*.

Compensation

The term "compensation," as used in this guide, covers all types of employee compensation including salaries, wages, vacation allowances, bonuses, and commissions (as defined in the *Federal Employer's Tax Guide, Circular E*, "Taxable Wages").

Pension and Retirement Benefits

Under Michigan law, qualifying pension and retirement benefits include most payments that are reported on a 1099-R for federal tax purposes and included in the retiree's federal adjusted gross income. This includes defined benefit pensions, IRA distributions, and most payments from defined contribution plans. Payments received before the recipient could retire under the provisions of the plan or benefits from 401(k), 457, or 403(b) plans attributable to employee contributions alone are not qualifying pension and retirement benefits under Michigan law and are subject to withholding. For additional information on pension and retirement benefits, visit www.michigan.gov/withholding.

Which Benefits are Taxable

Pension and retirement benefits are taxed differently depending on the age of the recipient. For married couples that file a joint Michigan income tax return, age is determined using the age of the older spouse. Military pensions, Social Security benefits and railroad retirement benefits continue to be exempt from tax.

Those born before 1946 may subtract all qualifying pension and retirement benefits received from public sources, and may subtract qualifying private pension and retirement

benefits up to \$51,570 if single or married filing separately, or \$103,140 if married and filing a joint return. Withholding will only be necessary on taxable pension payments that are not qualifying pension and retirement benefits (see **Pension and Retirement Benefits** on page 1) and qualifying private pension distributions that exceed the pension limits stated above for recipients born before 1946.

Recipients born during 1952 are able to deduct \$20,000 in pension and retirement benefits if single or married filing separately or \$40,000 if married and filing a joint return. If the benefit is less than the deduction amounts, no withholding is required unless the recipient requests withholding by submitting an MI W-4P. Recipients born between January 1, 1946 through January 1, 1952 are eligible for the Michigan standard deduction in lieu of a deduction for pension and retirement benefits. The pension withholding tables may be used to incorporate the benefit of the standard deduction and generate the appropriate withholding for recipients born in 1946-1951.

Recipients who receive pension benefits from employment with a governmental entity that was exempt from the federal Social Security Act are entitled to larger deductions. More information for plan administrators paying benefits from employment that was exempt from Social Security is available on the Treasury Website.

For recipients born after 1952, all pension and retirement benefits are generally taxable and subject to withholding.

Recipients born after 1952, who received benefits from employment with a governmental entity exempt under the Social Security Act, and who have reached age 62 may deduct up to \$15,000 in qualifying retirement and pension benefits. Form 4927-SSA for those born after 1952 incorporates the exempt amount for withholding.

How Much to Withhold

Employer Income Tax Withholding. Determine the amount of tax withheld using a direct percentage computation or the withholding tables provided on Treasury's Web site at www.michigan.gov/withholding. The withholding rate is 4.25 percent of compensation after deducting the personal and dependency exemption allowance.

Pension and Retirement Benefits Withholding. The withholding rate is 4.25 percent after deducting the personal exemption allowance claimed on the MI W-4P. Use the applicable monthly withholding table from either the Pension Withholding Tables for those born in 1946 through 1952 or the Michigan Income Tax Withholding Tables (Form 446-T) to calculate the appropriate withholding. Pension administrators should follow the directions from recipients on any MI W-4P received.

For recipients born during the period 1946 and 1952, the Pension Withholding Tables incorporate the deductions of \$20,000 for single or married filing separately, and \$40,000 for married and filing a joint return, assuming benefits are paid monthly. If benefits are paid other than monthly, withholding is only due on the amount that exceeds the recipients' deduction amount. Recipients who indicate on the MI W-4P they are married (withhold as single) should have withholding computed as if they are single.

If you received a MI W-4P from a recipient who has checked box 3, determine the amount of tax withheld using the direct percentage computation or the Pension Withholding Tables. If you prefer to compute withholding directly, refer to the Withholding Formula that follows.

Monthly Non-Taxable Deduction Amounts for those Born During the Period 1946 and 1952:

Single recipient pension deduction.....	\$1,666.67
Married recipient pension deduction.....	\$3,333.33
Personal exemption allowance.....	\$337.50

Withholding Formula. Withholding = [Pension or Retirement Payment subject to federal income tax – Monthly pension deduction – (Allowance per Exemption x Number of Exemptions)] x 4.25%

Example 1: A single retiree age 66 (born in 1952) receiving \$2,100/month with 1 exemption would have the following withholding:

$$[\$2,100 - \$1,666.67 - (\$337.50 \times 1)] \times 4.25\% = (\$2,100 - \$1,666.67 - \$337.50) \times 0.0425 = \$4.07$$

Example 2: A married retiree age 66 (born in 1952) receiving \$4,500/month with 2 exemptions would have the following withholding:

$$[\$4,500 - \$3,333.33 - (\$337.50 \times 2)] \times 4.25\% = [\$4,500 - \$3,333.33 - \$675.00] \times 4.25\% = \$20.90$$

For further information and examples, go to Treasury's Web site at www.michigan.gov/taxes.

In the absence of an MI W-4P, pension administrators shall do one of the following:

- (1) Do not withhold on benefits paid to recipients born before 1946 unless the benefits exceed private pension limits.
- (2) If the recipient was born in 1946 or after, withhold on all taxable pension distributions at 4.25 percent.

Other Withholding

Withholding on Nonresident Gambling and Charitable Gaming Winnings. Michigan withholding is required on all reportable winnings by nonresidents at Michigan casinos, racetracks, or off-track betting facilities. Reportable winnings are those winnings required to be reported to the Internal Revenue Service (IRS) under the IRC. To calculate Michigan withholding, multiply the amount of reportable winnings by 4.25 percent. Include the amount withheld on the recipient's Form W-2G.

Michigan withholding is required on winnings from charitable gaming if federal withholding is required. Charitable gaming licensees required to withhold Michigan income tax will need to register for withholding.

Fringe Benefits. Reporting and withholding on fringe benefits follows federal guidelines as provided in the *Federal Employer's Tax Guide, Circular E*. Examples of fringe benefits include 401(k) deferred compensation, profit sharing, and cafeteria benefit plans.

Supplemental Unemployment Benefits. Taxpayers who receive supplemental unemployment benefits but expect to not owe Michigan income tax can claim an exemption from withholding using form MI-W4.

Bonuses and Other Payments. Bonuses and other payments of employee compensation made separately from regular payroll

payments are subject to Michigan income tax withholding. The withholding amount equals the payment amount multiplied by 4.25 percent (0.0425). Do not make any adjustment for exemptions.

Who Must Be Registered?

A person (including a company or other organization) must be registered for income tax withholding if the person:

- Is an employer. This may include in-state or out-of-state employers. See “Who is an Employer?” section.
- Is under Michigan jurisdiction and is required to withhold Michigan tax from taxable pension and/or annuity payments.
- Is not under Michigan jurisdiction, but agrees to withhold Michigan tax from taxable pension and/or annuity payments.

How to Register

The Michigan Department of Treasury offers an Online New Business Registration process. This process is easy, fast, secure and convenient. This e-Registration process is much faster than registering by mail. After completing this on-line application, you will receive a confirmation number of your electronic submission. To complete the online registration go to www.michigan.gov/mto.

If you do not have an FEIN, you must apply for one with the IRS on their website www.irs.gov or by phone 1-800-829-4933. The Michigan employer identification number is usually the same as the FEIN assigned by the IRS. When acquiring a business you must register with Michigan and obtain a new FEIN. Do not use the FEIN assigned to the previous business owner.

Reporting and Paying Amounts Withheld

All taxpayers must file return(s) and remit applicable payment(s) according to their filing frequency established by Treasury. There are 3 return filing options: Michigan Treasury Online (MTO), use of Treasury approved commercial or proprietary software, or paper filing (eligible forms only). The preferred method of filing and paying is through MTO, however, printable returns are available at www.michigan.gov/taxes.

When completing return information using MTO, you may electronically complete payment of tax using ACH debit or by credit card for tax years 2015 and beyond. Return and payment information can be completed in one MTO session, or either may be completed at different times in different sessions. You may also complete your payment separately by ACH Credit, or by completing a *Sales, Use and Withholding Payment Voucher* (Form 5094), when you e-file a tax due return and choose to pay by paper check.

For complete filing and payment information, visit www.michigan.gov/taxes. Complete instructions for registering and paying by MTO are available at www.michigan.gov/mtobusiness.

Wage Statements

W-2 Reporting. Every employer must furnish to each employee before January 31 of the succeeding tax year an annual W-2, Wage and Tax Statement giving name, address, Social Security number, gross earnings, and Michigan income tax withheld. Employers may use one of the IRS-approved combined W-2 forms available commercially. If, after reasonable effort, you are unable to deliver a W-2 to an employee, follow the instructions in the *Federal Employer's Tax Guide, Circular E*.

Correcting W-2 Errors. If the error was due to under reporting withholding on the original W-2, issue a corrected W-2 and send a copy to Treasury. As provided in Rule 206.33(3)(b), the employer can only receive a refund if the original W-2 is recovered from the employee. When an employee retains the original, erroneous W-2, the employee, not the employer, must request the refund. The corrected form should be clearly marked “Corrected by Employer.”

If the error was due to over reporting withholding on the original W-2, do not issue a corrected W-2. This type of correction must be handled in one of the following ways (1979 AC, R 206.22):

- 1) The employer may repay the amount withheld in error to the employee anytime within the same calendar year. The employer shall obtain a receipt from the employee and keep in business records. The employer may adjust their records and deduct the amount refunded from the tax owing on his next return, or ask for a cash refund.
- 2) If the employer does not repay the employee as noted above, the employee may claim a credit for the amount withheld on their individual income tax return (Form MI-1040).

If an issued W-2 is lost or destroyed, give the employee a substitute copy clearly marked “Reissued by Employer.”

Note: If the withholding error occurs before a W-2 is issued, adjust a later paycheck and make the same adjustment in the next payment due to Treasury.

1099 Reporting. Michigan is now participating in the combined federal/state 1099 filing program. The IRS will share this information with Michigan. If there is no Michigan individual income tax withholding reported and the 1099s were filed using this program, the Michigan requirement for reporting non-employee compensation paid to Michigan residents has been satisfied. This rule applies for tax years 2014 and beyond.

If Michigan income tax was withheld, the taxpayer needs to file as any other filer who has paid Michigan individual income tax withholding. See IRS form instructions to determine the deadline to furnish 1099 forms to recipients.

Filing State Copies of Wage Statements

State copies of wage statements are due to the Department of Treasury on or before February 28.

Michigan Treasury Online. For tax years 2015 and beyond, you may electronically upload wage statement information through Michigan Treasury Online (MTO). Visit michigan.gov/mtobusiness for MTO guides and tutorials as well as file format and size restrictions for wage statement upload.

Mail. Alternatively, wage statements can be mailed separately to the address below. Do not include a copy of the annual return with the wage statements. Do not include wage statements with your annual return filing.

Michigan Department of Treasury
Lansing, MI 48930

Magnetic Media. Employers with 250 or more employees must report using magnetic media. Smaller employers are encouraged to use magnetic media reporting, but are not required to send state copies of federal wage statements in this manner. Filing and format instructions are available on the *Transmittal for Magnetic Media Reporting of W-2s, W-2Gs, and 1099s to the State of Michigan* (Form 447).

For tax years 2017 and beyond, electronic upload of wage statement information through MTO is magnetic media compliant.

Magnetic Media Reporting. Employers with 250 or more Michigan employees are required to file Michigan wage statement information via Magnetic Media.

For W-2 and 1099 reporting specifications, see *Transmittal for Magnetic Media Reporting* (Form 447) at www.michigan.gov/treasuryforms.

Employee Exemptions

MI-W4 Withholding Exemption Certificate

Every employer must obtain a *Withholding Exemption Certificate* (Form MI-W4) from each employee. The federal W-4 cannot be used in place of the MI-W4.

The exemption amount is \$4,050 per year times the number of personal and dependency exemptions allowed under Part 1 of the Michigan Income Tax Act. An employee may not claim more exemptions on the MI-W4 than can be claimed on the employee's Michigan income tax return. Michigan has additional special exemptions that are claimed on a taxpayer's Michigan income tax return, but are not claimed on an MI-W4.

The MI-W4 enables employees to claim exemption from Michigan income tax withholding. Employees may claim exemption from withholding only if they do not anticipate a Michigan income tax liability for the current year because their employment is less than full-time and the personal and dependency exemptions exceed their annual compensation.

Any changes made to an MI-W4 makes the form invalid. Any writing on the certificate other than entries required is considered a change.

If you receive an invalid certificate, do not consider it to compute withholding. You must inform the employee who submitted the certificate that it is invalid and require the employee to submit a corrected MI-W4. If the employee does not comply, withhold from the employee's total compensation based on zero exemptions. If a prior valid certificate is in effect, continue to withhold in accordance with the prior valid certificate.

Sending Certain MI-W4 Certificates

Under Public Act 169 of 1982, employers must submit to Treasury a copy of any MI-W4 received from employees who:

- Claim ten or more exemptions, or

- Claim exempt from withholding tax.

Employers must also submit MI-W4s for employees who change their withholding status to exempt.

Employers should not send copies of exemption certificates filed by:

- Part-time or student employees whose expected earnings will be less than their exemption allowance.
- Employees who claim exempt because they live in a reciprocal state, or
- Employees who claim exempt for a stated time (e.g., two pay periods).

Use the official MI-W4 only; do not send copies of the federal W-4. **Mail MI-W4s only to:** New Hire Operations Center, P.O. Box 85010, Lansing, MI 48908-5010

If you report your New Hire information magnetically or electronically, also send a paper copy of the MI-W4 for these employees to the New Hire Operations Center. Do not attach MI-W4 forms to the Sales, Use, and Withholding tax return. Include copies of any written statement or explanation from the employee supporting the claim made on the MI-W4.

Reciprocal Agreements

Employers located in Michigan must withhold Michigan income tax from all compensation paid to nonresident employees for work done in Michigan, unless covered by a reciprocal agreement.

Michigan has entered into reciprocal agreements with the states of Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin. This means that a Michigan employer will not withhold Michigan income tax from residents of these states who work in Michigan. Employers in Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin will not withhold their state income tax from Michigan residents who work in their state. However, such employers may voluntarily register with Treasury to withhold Michigan income tax from Michigan residents who work in their states.

Certificate of Nonresidency

Treasury does not furnish nonresidency certificates. The employer may develop a form or obtain a letter from the employee. The form or letter should contain the employee's name, legal address, Social Security number, and a statement signed and dated by the employee that this is his or her legal address. The employer keeps the form as its authority not to withhold Michigan income tax.

Employer Discontinuance

If you go out of business or permanently stop being an employer, you must do **all** of the following:

- File a final monthly or quarterly return and pay all money due within 15 days after you discontinue business.
- Complete and file Form 5080 with Treasury by February 28. Also include the State of Michigan copy of the combined W-2 as furnished to each employee.
- Give a combined W-2 to the employee no later than 30 days after the last payment of compensation.
- Complete *Notice of Change or Discontinuance* (Form 163) electronically on MTO at mto.treasury.michigan.gov or mail the paper form available at michigan.gov/taxes.

Records You Must Keep

You must keep all records pertinent to this tax available for inspection by Treasury. The records are similar to those necessary for federal income tax withholding as shown in the *Federal Employer's Tax Guide, Circular E*.

Records must show the amounts and dates of all compensation payments subject to this tax. Include employee name, address, Social Security number, MI-W4, occupation, and period of employment. Include records that show periods an employee was paid by the employer while absent from work due to sickness or personal injury. Show the amount and weekly rate of such payments. Keep duplicates of all returns filed.

These records must be kept at least six years after the date the tax to which they relate becomes due or the date the tax is paid, whichever is later.

Reporting Newly Hired Employees

Treasury encourages employers to take advantage of the online Internet reporting and information available at **www.mi-newhire.com**. Employers using online reporting will have access to a secure Web site, receive e-mail confirmations for new hire submissions, be able to view reporting history online, and have access to the *New Hire Reporting Form* (Form 3281). For additional New Hire reporting information, call 1-800-524-9846.

Contact Treasury

Contact Treasury at Michigan Department of Treasury, P.O. Box 30427, Lansing, MI 48909; 517-636-6925. Assistance is available using TTY through the Michigan Relay Service by calling 1-800-649-3777 or 711. Printed material in an alternate format can be requested by calling 517-636-6925.