

2018 City of Detroit Income Tax Withholding Guide

Who Must Withhold?

Every employer that has a location in the City of Detroit, or is doing business in the City of Detroit, even if it has no location in the City of Detroit, is required to withhold income tax from its employees. *An employer* is any individual, partnership, association, corporation, non-profit organization, governmental body or unit or agency, or any other entity that employs one or more persons on a salary, bonus, wage, commission or other basis whether or not the employer is a business.

For example:

- A construction firm from Ohio doing work in the City of Detroit is required to withhold income tax from its employees.
- An employer that has locations both in and out of the City of Detroit must withhold income tax from all employees working in the City of Detroit, and from all City of Detroit resident employees working in or out of the City of Detroit.
- A non-profit organization in the City of Detroit is required to withhold income tax from its employees (although it is not engaging in business activity in the usual sense).
- Employers that are not required to withhold City of Detroit income tax may register and withhold for the convenience of their City of Detroit resident employees. Convenience withholders must comply with the registration and filing requirements outlined in these instructions.

NOTE: Employers withholding City income tax are required to file the *City of Detroit Income Tax Withholding Monthly/Quarterly Return* (Form 5323) either monthly (\$1,200 or more withheld per year) or quarterly (\$1,199 or less withheld per year) **AND** the *City of Detroit Income Tax Withholding Annual Reconciliation* (Form 5321).

Employees Who are Subject to Withholding

An employer either required to withhold or voluntarily registered for withholding must withhold on compensation paid to the following employees:

- All residents of the City of Detroit whether or not they work inside the City of Detroit; and
- All nonresidents of the City of Detroit who have the City of Detroit as their predominant place of employment (see below).

An employee is anyone from whom an employer withholds either federal income tax or social security tax.

Compensation Subject to Withholding

City of Detroit income tax must be withheld from:

- All compensation (salaries, wages, commissions, severance pay, bonuses, etc.) of a City of Detroit resident for services rendered or work performed regardless of whether such services or work are performed in or out of the city; and

- All compensation of a nonresident for services rendered or work performed in the City of Detroit where the City of Detroit is the predominant place of employment.

Vacation, holiday, sick, severance and bonus pay to nonresidents who perform part but not all of their work or services in the City of Detroit are taxable in the same ratio as their normal activities.

Example: A nonresident employee who is subject to withholding on 60% of their earnings, because 60% of their work is performed in the City of Detroit, is also subject to withholding on 60% of their vacation, holiday, sick pay, severance pay, bonus pay or wage payments during periods of sickness.

Payments Not Subject To Withholding

Withholding does not apply to:

- Wages paid to domestic help;
- Fees paid to independent contractors who are not employees;
- Payment to a nonresident employee for work or services performed in the City of Detroit, if the predominant place of employment is not the City of Detroit;
- Payment to a nonresident employee for work or services rendered outside of Detroit;
- Pensions and annuities, worker's compensation and similar benefits;
- Amounts paid for sickness, personal injury or disability (so called excludable sick pay) to the same extent that these amounts are exempt from federal income tax, but the employer must withhold from such payments if federal tax is withheld;
- Amounts paid to an employee as reimbursement for expenses incurred in performing services.

An individual with income described in the first three bullets above is not subject to withholding on such income. The individual is nevertheless required to file an annual return and report such income if the individual is a City of Detroit resident, or is a nonresident earning such income in the City of Detroit.

Employee's Withholding Exemption Certification for the City of Detroit (DW-4), Form 5527

To determine each employee's place of residence and predominant place of employment an employer must have each employee fill out an *Employee's Withholding Exemption Certificate for the City of Detroit* (DW-4), Form 5527. Only one Form 5527 is required for each employee, even though the employee may be subject to withholding for two cities.

When properly filled out, Form 5527 provides the employee's city of residence and the two cities or communities in which the employee earns the greatest percentage of compensation from the employer. Most employees will only have one city of employment and will check the 81%-100% field as the percentage of compensation earned in that city. Form 5527 is also the employee's statement of the number of dependency exemptions claimed.

If an employee fails or refuses to complete Form 5527 upon

the request of the employer, tax shall be withheld from the employee's compensation at the resident tax rate without any consideration of exemptions.

Do not mail Form 5527 to the city or the Michigan Department of Treasury; these are for the employer's use and must be retained in the employer's files.

Income Tax Rates

The City of Detroit income tax rate for residents is 2.4% (multiply by 0.024). The City of Detroit income tax rate for nonresidents is 1.2% (multiply by 0.012).

Calculating the Amount to Withhold

The City of Detroit Income Tax is a straight percentage on compensation after an adjustment for personal and dependency exemptions. Each exemption is valued at \$600.00 per year. For the various pay periods the exemption translates to the amounts in the table below.

Weekly	\$11.54
Bi-weekly	\$23.08
Semi-monthly	\$25.00
Monthly	\$50.00
Per diem/daily	\$ 1.64

Exemptions are allowed for the employee, spouse, and other dependents allowed under federal rules. Additional exemptions are allowed if either the employee or spouse is 65 years of age or older, or blind (this is different from the federal rule).

Individuals who may be claimed as an exemption on the individual return of another taxpayer should report zero personal exemptions on Form 5527.

The amounts in the preceding table are used to adjust gross pay for payroll withholding. The adjustment is the number of exemptions on Form 5527 multiplied by the exemption value. On a weekly payroll for a wage earner with three (3) exemptions, the adjustment is 3 times \$11.54, or \$34.62.

The following is a description of the most commonly used method to compute income tax withholding:

- Multiply gross earnings by the percent earned in Detroit for nonresidents or use gross earnings for residents.
- Multiply number of exemptions by the appropriate exemption value (from the prior table).
- Subtract the result of Step 2 from the result of Step 1.
- Multiply the result from Step 3 by:
 - 2.4% (0.024) for residents; or
 - 1.2% (0.012) for nonresidents.

EXAMPLE: Gross pay is \$200.00 per week and the wage earner lives in Detroit and has 3 exemptions. The amount taxed is \$165.38 (\$200.00 - \$34.62). Apply the 2.4% resident rate (\$165.38 x 0.024), and withhold \$3.97 from the employee for the week.

The above method is applicable to all City of Detroit withholding for regular payrolls. For bonuses or other taxable earnings paid in addition to regular payroll, do not adjust for exemptions. Withhold the correct tax percentage from the entire bonus or other taxable earnings amount.

Resident – Employment in Other City Levying a Tax

When a resident is employed at a job in a city other than the City of Detroit and the other city levies an income tax, the employer must withhold separately for both the City of Detroit and the other city. The rate of income tax to be withheld for the City of Detroit depends on the tax rate of the other city. Compute the City of Detroit withholding rate by subtracting the other city's nonresident tax rate from 2.4%.

Nonresident – Employment Partly in Detroit

If a nonresident of the City of Detroit works less than 100% of the time within the City of Detroit for an employer, the amount withheld should be based only on wages earned in the City of Detroit. If gross pay is \$200.00 and only 60% of the employee's work is in the City of Detroit, the gross pay for the City of Detroit tax purposes is 60% of \$200.00 or \$120.00. In this example, compute the amount to be withheld for the City of Detroit as if the employee earned \$120.00 gross pay.

Nonresident – Predominant Place of Employment

Nonresidents of the City of Detroit are subject to withholding only if the City of Detroit is their predominant place of employment. The predominant place of employment is that city imposing a tax under a uniform city income tax ordinance other than the city of residence, in which the employee estimates he will earn the greatest percentage of his compensation from the employer, which percentage is 25% or more.

The City of Detroit is a nonresident's predominant place of employment if:

- The nonresident employee earns a greater percentage of compensation in the City of Detroit than any other Michigan city with an income tax, except the employee's city of residence; and
- This greater percentage constitutes 25% or more of the nonresident employee's total compensation from the employer.

Payment of Tax Withheld

Payment of tax withheld may be made in the following ways:

- Paper check via U.S. mail or courier with the filing of a paper return.
- Paper check via U.S. mail or courier with the *City of Detroit Income Tax Withholding E-file Payment Voucher* (Form 5322), when the return was previously e-filed.
- Electronically via ACH debit when e-filing the return.
- Electronically via ACH debit when using Treasury's online payment system at www.michigan.gov/biztaxpayments. The *City of Detroit Electronic Funds Transfer (EFT) Debit Application, Account Update* (Form 5473) must be submitted to Treasury for approval before payments can be made using the online payment system.
- Electronically through your financial institution via ACH credit with an addendum file. The *Instructions for Payment of Michigan Sales, Use, Withholding and Other Michigan Business Taxes Using Electronic Funds Transfer (EFT) Credit* (Form 2329) list the requirements for making ACH credit payments.

Forms are available on the Michigan Department of Treasury's Web site at www.michigan.gov/citytax.

Due Dates

Monthly returns: The *City of Detroit Income Tax Withholding Monthly/Quarterly Return* (Form 5323) and payments (if applicable) are due on the 15th day of the month following the month in which the tax was withheld.

Quarterly returns: Form 5323 and payments (if applicable) are due on the 15th day of the month following each quarter. For the 2018 tax year, these due dates are April 15, July 15 and October 15, 2018, and January 15, 2019.

NOTE: Form 5323 **must be filed** even if there is no tax liability for the period.

NOTE: If a due date falls on a holiday or weekend, the due date shifts to the first business day following the weekend or holiday.

Annual Reconciliation: The *City of Detroit Income Tax Withholding Annual Reconciliation* (Form 5321) and payments (if applicable) for the 2018 tax year are due February 28, 2019.

Correction of Errors

Employer's errors of over or under withholding should be corrected as follows:

- If an error is discovered in the same period (month or quarter) in which it was made, the employer shall make the necessary adjustment in a subsequent payment. Only the corrected amount should be included in the return to the city;
- If an error is discovered in a subsequent period of the same calendar year, the employer shall make the necessary adjustment on a subsequent payment and report it as an adjustment on the next return;
- If an error is discovered in the following calendar year, the employer shall notify the City Income Tax Division of the Michigan Department of Treasury of the error by filing an amended Form 5321 including corrected W-2 forms (W-2C), if applicable, and:
 - Pay any additional tax due; or
 - Make a written request for refund of an overpayment including a specific explanation of the error.

NOTE: Overpayments of withholding will not be credited toward tax due in future years.

Registration, Changes to Account or Sale or Discontinuance

Registration: Taxpayers must first be registered for State of Michigan withholding taxes before filing a *City of Detroit Income Tax Withholding Annual Reconciliation* (Form 5321). If the taxpayer does not have a Federal Employer Identification Number (FEIN), the taxpayer must obtain an FEIN before filing a City of Detroit Income Tax Withholding Return. Visit www.michigan.gov/business taxes for information on obtaining an FEIN and to register a new business (located under "New Business Registration"). Returns received without a registered account number will not be processed until such time as a number is provided.

Changes to Account: Changes to your account such as address and adding City of Detroit Corporate Income Tax or City of Detroit Income Tax Withholding (if already registered with Treasury) can be made by completing the *City of Detroit Notice of Change* (Form 5439).

NOTE: Changes requested on Form 5439 will ONLY update your City of Detroit Income Tax Withholding accounts. To make changes to State of Michigan Business Taxes please visit www.michigan.gov/business taxes.

Sale or Discontinuance: An employer who sells, goes out of business or permanently ceases to be an employer must file W-2s and a Form 5321 by the date the final withholding payment is due. You must indicate within Form 5321 the Date and Reason Code for Discontinuance. Do not use Form 5439 to report a sale or discontinuance.

Annual Reports

Employers doing business within the city designated on the *City of Detroit Income Tax Withholding Annual Reconciliation* (Form 5321), and are reporting local withholding for a city on a 1099-R, must also report 1099-R information to the Michigan Department of Treasury on or before the last day of February. When submitting W-2 forms by paper, they must be included with Form 5321. Form 5321 is available on the Michigan Department of Treasury's Web site.

A copy of Form W-2 issued to each employee subject to the Detroit income tax must be filed whether the tax was withheld or not. The Form W-2 must provide the following information:

- The name, address and federal identification number of the employer.
- The name, home address and social security number of the employee.
- The total gross wages paid the employee for the year even if the total wages did not have Detroit tax withheld.
- The total Detroit tax withheld for the year. The amount of tax withheld must be clearly labeled as being Detroit income tax withheld, and the label must be in the appropriate box on Form W-2. Failure to properly and clearly label the Detroit tax withheld in the locality box of Form W-2 makes the form unacceptable. Improperly labeled W-2 forms do not satisfy the withholding tax reporting requirements of the Detroit Income Tax Ordinance.

Employers wishing to purchase one of the commercially available W-2 forms in order to combine the city, state and federal reporting in one operation are permitted to do so, providing one copy is submitted to the City by the employer.

Employers may file W-2 forms via CD-ROM in lieu of paper W-2s. Information and specifications for filing via CD-ROM are available on the Michigan Department of Treasury's Web site at michigan.gov/taxes; see the *Transmittal for Magnetic Media Reporting of W-2, W-2G & 1099s* (Form 447).

Some computer software programs allow the electronic filing of W-2 data in the Social Security Administrations EFW2 format, when Form 5321 is e-filed. Check with your software provider for more details.

Forms, Instructions and Information

Income tax forms, instructions and additional information are available on the Treasury Web site at www.michigan.gov/citytax.

Additional information is available at 517-636-5829. Assistance is available using TTY through the Michigan Relay Service by calling 1-800-649-3777 or 711. Customer service representatives

are available from 8 a.m. to 4:45 p.m., Monday through Friday. Call 517-636-5829 for printed material in an alternate format.

Self Service Options. Visit our secure Web site at www.michigan.gov/citytax to check the status of your return. This service is available 24 hours a day, seven days a week.

• **IMPORTANT:** To obtain information about your account using the Internet you will need the following information from your City return:

- Federal Employer Identification Number (FEIN).
- City (Detroit).
- Form number of return filed (Form 5321 or 5323).
- Tax year of return.
- And whether the item in question is a monthly/quarterly or annual return.

Electronic Funds Transfer (EFT) Debit and Credit Payments

EFT Debit: Your existing Treasury user ID and password can be used to access both the online payment process and the existing touch-tone phone system once you have added City of Detroit Withholding Tax. If you do not have a user ID and password and/or have not added City of Detroit Withholding Tax, you must complete and submit the *City of Detroit Electronic Funds Transfer (EFT) Debit Application, Account Update* (Form 5473). (See www.michigan.gov/citytax for more information.)

If submitting an EFT Debit payment using a computer software program, an *EFT Debit Application* is not required.

EFT Credit: Follow instructions on the *Instructions for Payments of Michigan Sales, Use, Withholding, and Other Michigan Business Taxes Using Electronic Funds Transfer (EFT) Credit* (Form 2329) to submit an EFT Credit payment.

Electronic Filing

Filing of tax returns electronically is accurate, convenient, and secure. The City Withholding e-file program provides Michigan taxpayers the opportunity to e-file City of Detroit income tax withholding returns, including amended returns, that were prepared using a computer software program. Some computer software programs also allow taxpayers to make an electronic payment via EFT Debit when e-filing their return. If an error occurs on a return, the e-file software sends an error message and allows the tax preparer to immediately correct the mistake before the return is transmitted.

There is no e-file mandate for City of Detroit income tax withholding returns. However, e-file returns have significantly less chance of error and are processed faster than paper returns. When e-filing, do not mail a paper copy of your return, unless requested by Treasury to do so. For more information on Treasury's E-file Programs, visit www.MIfastfile.org.