

for *Extension of Time to File Michigan Tax Returns*, and the amount of your 1998 overpayment applied to this year's tax (from 1998 MI-1040, line 36). See **special note** after line 37 instructions.

Line 37: Tax Due. If line 36 is less than line 31, enter the difference. This is the tax you owe with your return. If you owe penalty and interest for late filing, enter these amounts on the appropriate lines.

See page 8 "Penalty and Interest Added for Filing or Paying Late" for penalty and interest rates. Add penalty and interest to your tax due and enter the total on line 37. If you owe more than \$500 and are required to make estimated payments, see **special note** below. If the balance due is less than \$1, no payment is required, but you must still file your return. See "Pay" address on page 2 of your MI-1040 form.

Special note for people required to file estimates. You may owe penalty and interest for underpayment, late payment or for failing to pay estimates. Use the *Underpayment of Estimated Income Tax* (form MI-2210) to compute penalty and interest. If you do not file an MI-2210, Treasury will compute your penalty and interest and send you a bill. If you annualize your income, you must complete and attach an MI-2210. If you file form MI-2210, check the box on line 37a and enter the penalty and interest amounts on the lines provided.

Line 38: Your Refund. This includes any tax you overpaid and any credits due you. The state does not refund amounts less than \$1. Mail your return to the "Refund or Credit" address on page 2 of your MI-1040 form.

 **Direct Deposit.** Instead of receiving a check, you may request deposit of your refund directly into your account at a financial institution. Complete the *Direct Deposit of Refund* (form 3174) on page 27 and attach it behind your return. See "Attachments" on page 6.

SIGN YOUR RETURN

Each spouse must sign a joint return. If the preparer is someone other than the taxpayer, he or she must also sign the

return and enter the business name and address. Check a box to indicate if Treasury may discuss your return with your preparer.

You must attach all your credit claims and required Michigan and federal schedules (see Table 1, page 8). If you owe tax, enclose your payment, but do not staple it to the return. Checks stapled under the W-2 or to the back of the return may not be seen and may result in improper processing.

Signing a child's return. If a return is prepared for a child who is too young to sign it, a parent or guardian should sign the child's name, then add "by (your name), parent (or guardian) for minor child."

Line-by-Line Instructions for MI-1040 Schedule 1

Part-year and nonresidents, complete Schedule NR (see page 31) before proceeding.

Additions to Income

Line 1: Enter gross interest, dividends, and income from obligations or securities of states and their political subdivisions other than Michigan. Add this income even if it comes to you through a partnership, S corporation, estate or trust. You may reduce this income by related expenses not allowed as a deduction by Section 265(a)(1) of the IRC.

Line 2: Enter the deduction taken for **self-employment tax** on your federal return and for other taxes on or measured by income, such as your share of city income tax paid by partnerships or S corporations, or your share of the taxes paid by an estate or trust.

Line 3: Use Michigan form **MI-1040D** **only** if you have capital gains or losses attributable to: 1) an election to use Section 271 treatment for property acquired before October 1, 1967; 2) the sale or exchange of U.S. obligations which cannot be taxed by Michigan; or 3) the sale or exchange of property subject to allocation provisions.

If you reported gains on U.S. 4797 on property acquired before October 1,

1967, adjust the gain on Michigan form **MI-4797**.

Enter gains from the Michigan column of your MI-1040D, line 17, or MI-4797, line 18b. Instructions are with each form.

Line 4: Enter losses from a business or losses from property located in another state which you own as a sole proprietor, a partner in a partnership or as a shareholder in an S corporation. If your business is taxed by both Michigan and another state, the loss must be apportioned. Attach a *Schedule of Apportionment* (form MI-1040H).

Line 5: Enter the net loss from the federal column of your Michigan MI-1040D, line 18 or MI-4797, line 18b.

Line 6: Enter the total of the following (attach a schedule if necessary):

- Amount of net operating loss deduction (NOL carryforward) used to reduce AGI (see page 10).
- Net loss included in AGI from Michigan gas and oil royalty interest or working interest
- Refund received from a Michigan Education Trust (MET) contract. If you deducted the cost of a MET contract in previous years and received a refund from MET during 1999 because the MET contract was terminated and the beneficiary is not attending an institution of higher education, then enter the smaller of:
 - a. the refund you received, **OR**
 - b. the amount of the original MET contract price (including the application and processing fees) which you deducted in previous years.

If you financed your MET contract with a MET-secured loan, deducted the cost of that contract and then defaulted on the loan, enter the amount paid in 1999 by MET to repay the outstanding principal portion of your defaulted loan.

Subtractions From Income

Note: Part-year and nonresidents subtract only the amounts included in income attributable to Michigan (column B of Schedule NR) on all lines except line 11.

Line 8: Enter income from U.S. government obligations (Series EE bonds, Treasury notes, etc.), including income from U.S. government obligations received through a partnership, S corporation or trust. This subtraction must be reduced by interest expense on indebtedness incurred in carrying the obligation and by related expenses used to arrive at AGI.

Investment companies that invest in U.S. obligations are permitted to pass the tax-free exemption of such holdings to their shareholders. The shareholders are treated as owners of a proportionate share of the fund's assets.

If income from U.S. government obligations exceeds \$5,000, attach a copy of your U.S. *Schedule B* listing the amounts received and the issuing agency.

Capital gains from the sale of U.S. government obligations must be adjusted on Michigan form MI-1040D.

Line 9: Enter compensation received for active duty in the U.S. Armed Forces included in AGI. Include military retirement on line 12.

Note: A Michigan resident who receives compensation from the U.S. Public Health Service may not subtract the income as military pay.

Line 10: Enter the gains from the federal column of your Michigan form **MI-1040D, line 17, and MI-4797, line 18b**. Do not enter amounts from your federal forms. See instructions for MI-1040 Schedule 1, line 3.

Line 11: Income Attributable to Another State. Nonresidents and part-year residents, complete Schedule NR. See instructions on page 32. Attach federal schedules.

Business income from an activity that is taxable by Michigan and by another state must be apportioned. Complete and attach form MI-1040H.

Capital gains from the sale of real property located outside of Michigan must be adjusted on Michigan form MI-1040D.

Michigan residents cannot subtract salaries and wages or other compensation earned outside Michigan. However, you may be entitled to a tax credit for tax imposed by governmental units outside Michigan (see page 14).

Residents may subtract:

- Business income derived solely in other states and included in AGI, and
- Net rents and royalties from real property located or used in another state.

Line 12: Qualifying retirement and pension benefits included in your AGI may be subtracted from income. The amount you may subtract depends on the source of the benefit. Qualifying benefits include:

- Pension plans that define eligibility for retirement and set contribution and benefit amounts in advance
- Qualified retirement plans for the self-employed
- Distributions from a 401(k) plan attributable to employer contributions or attributable to employee contributions to the extent they result in matching contributions by the employer
- IRA distributions received after age 59 1/2 or described by Section 72(t)(2)(iv) of the IRC
- Benefits paid to a senior citizen (age 65 or older) from a retirement annuity policy which are paid for life (as opposed to a specified number of years)
- Benefits from any of the previous received as a surviving spouse.

You may subtract **all** pension benefits included in AGI received from the following public sources:

- The State of Michigan
- Michigan local governmental units (e.g., Michigan counties, cities and school districts)
- Tier 1 and 2 railroad retirements
- Federal civil service
- Military retirement from the U.S. Armed Forces.

If all retirement and pension benefits were received from public sources listed above, enter the total of all benefits on line 12.

If all retirement and pension benefits were received from private sources, enter the smaller of:

- The total of all private pensions included in AGI, or
- \$34,170 if you are a single filer, \$68,340 if you are married, filing jointly.

If you received a combination of public and private retirement and pension benefits, follow these steps to compute your deduction:

Step 1: Add all public retirement benefits included in AGI.

Note: If your public retirement benefits are greater than the amounts indicated you are not entitled to claim a subtraction for private pensions.

Step 2: If you are a single filer, deduct the amount in step 1 from \$34,170. If you are married filing jointly, deduct the amount in step 1 from \$68,340.

Step 3: Add all private pensions included in AGI.

Step 4: Determine which is smaller, the amount computed in step 2 or the amount computed in step 3.

Step 5: Add the amount computed in step 1 to the amount determined in step 4 and enter the total on line 12. See Example A on the back of Schedule 1 on page 26.

You may not subtract:

- Amounts received from a deferred compensation plan that lets the employee set the amount to be put aside and does not set retirement age or requirements for years of service. These plans include, but are not limited to plans under Section 457 and distributed under Section 401(k) of the Internal Revenue Code.
- Amounts received before the recipient could retire under the plan provisions, including amounts paid on separation, withdrawal or discontinuance of the plan.
- Amounts received as early retirement incentives, unless the incentives were paid from a pension trust.

Line 13: Senior citizens (age 65 or older) may subtract interest, dividends and capital gains included in AGI. This subtraction is limited to a maximum of \$7,620 on a single return or \$15,240 on a joint return. However, the maximum must be reduced by the pension subtraction. See Example B on the back of Schedule 1 on page 26.

Line 14: Enter only the taxable portion of Social Security benefits included on your U.S. *1040*, line 20b, or your U.S. *1040A*, line 13b. Do not include your total Social Security benefits.

Line 15: Renaissance zone deduction. To be eligible you must meet all the following requirements:

- Be a permanent resident of a renaissance zone for at least 183 days.
- Must not be delinquent for any state or local taxes abated by the Renaissance Zone Act.
- Must file an MI-1040 each year.
- Have gross income of not more than \$1 million.

If you were a full-year resident of a renaissance zone you may subtract all earned income. Unearned income such as capital gains may have to be prorated. If you lived in the zone at least 183 days during 1999, you may subtract the portion of income earned while a resident of the zone. Complete and attach a Schedule NR to your MI-1040.

(See "Special Note" on the back of Schedule NR, page 32.) For additional information regarding qualifications for the renaissance zone deduction

request the *Renaissance Zone Information for Individuals* brochure (form 3292).

You may also call the Michigan Tele-Help System (1-800-827-4000) and listen to topic #293.

Line 16: You may subtract Michigan state and city income tax refunds and homestead property tax credit refunds that were included in AGI.

Note to farmers: You may subtract (to the extent included in AGI) the amount that your state or city tax refund and homestead property tax credit exceeds the business portion of your homestead property tax credit.

Line 17: Allowable miscellaneous subtractions include:

- Contributions to national or Michigan political parties or candidates. The maximum deduction is \$50 on a single return and \$100 on a joint return.
- Benefits from a discriminatory self-insured medical expense reimbursement plan, to the extent these reimbursements are included in AGI.
- Proceeds and prizes won in State of Michigan regulated bingo, raffle or

charity games to the extent included in AGI.

- Amount of salary and wage expense that cannot be deducted on your federal return because you are claiming a work opportunity credit, clinical testing (orphan drug) credit or research credit. Attach a copy of U.S. *Work Opportunity Credit* (form 5884), *Credit for Increasing Research Activities* (form 6765), or *Orphan Drug Credit* (form 8820) to substantiate this subtraction.
- Losses from the disposal of property reported in the Michigan column of Michigan form MI-1040D, line 18, or MI-4797, line 18b.
- Amount used to determine the credit for elderly or totally and permanently disabled from U.S. *Schedule R*, line 19, or U.S. *1040A Schedule 3*, line 19.
- Michigan net operating loss deduction. Attach MI-1045. See page 10.
- Net income included in AGI from Michigan gas and oil royalty interest or working interest.
- If you purchased a Michigan Education Trust (MET) contract during 1999, you may deduct the total contract price (including application and processing fees).
- If you purchased a MET payroll deduction or monthly purchase contract, you may deduct the amount paid on that contract during 1999 (not including fees for late payments or insufficient funds). You should receive an annual statement from MET specifying this amount.
- If you purchased a MET contract between 1988 and 1990 with a MET-secured loan and have not previously deducted the total contract price paid, you may deduct the principle amount paid on the secured loan during 1999.
- Amount of taxable benefits the **purchaser** received and included in AGI during 1999 because the MET contract was terminated to attend a private school or out-of-state school, or the beneficiary (student) did not attend school. The beneficiary cannot claim this subtraction.

You may not subtract:

- Itemized deductions from U.S. *Schedule A*.
- Sick pay, disability benefits and wage continuation benefits paid to

you by your employer or by an insurance company under contract with your employer.

- Unemployment benefits included in AGI, except railroad unemployment benefits.
- Distributions from a deferred compensation plan received while a resident of Michigan.
- Lottery winnings. (Exception: installment payments from prizes won on or before December 30, 1988 may be subtracted.)

General Information for Homeowners and Renters About the Homestead Property Tax Credit (MI-1040CR)

Who may claim a property tax credit

You may claim a property tax credit if all of these apply:

- Your homestead is located in Michigan.
- You were a Michigan resident at least six months of 1999.
- You pay property taxes or rent on your Michigan homestead.

You can have only one **homestead** at a time, and you must be the occupant as well as the owner or renter. Your homestead can be a rented apartment, or a mobile home and a lot in a mobile home park. A vacation home or income property is not considered your homestead.

Your homestead is in your state of **domicile**. Domicile is the place where you have your permanent home. It is the place you plan to return to whenever you go away. Even if you spend the winter in a southern state, your domicile is still Michigan. College students and others whose permanent homes are not in Michigan are not Michigan residents. Domicile continues until you establish a new permanent home.

Property tax credit claims may not be submitted on behalf of minor children. Any public assistance benefits paid to a minor must be included in the household income of the parents when computing their credits.