

MI-1041

Fiduciary Income Tax Return

WHERE TO GET FORMS AND ASSISTANCE.

- **Internet:** Current year forms are available at www.michigan.gov/iit
- **Telephone:** You may also call 517-636-4486 to have current year forms mailed to you, or if you have questions, to speak to a customer service representative.
- **TTY:** Assistance is available using TTY through the Michigan Relay Service by calling 711. Printed material in an alternate format may be obtained by calling 516-636-4486.

**FIDUCIARY RETURNS CANNOT
BE FILED ELECTRONICALLY.**



**FILING DUE DATE:
APRIL 17, 2018**

**(OR THE 15TH DAY OF THE FOURTH MONTH
AFTER THE CLOSE OF YOUR TAX YEAR)**

WWW.MICHIGAN.GOV/TAXES

GENERAL INFORMATION

Who Must File

Important: Fiduciary returns cannot be e-filed.

You must file a *Michigan Fiduciary Income Tax Return* (Form MI-1041) and pay the tax due if you are the fiduciary for an estate or trust that was required to file a U.S. Form *1041* or *990-T* or that had income taxable to Michigan that was not taxable on the U.S. Form *1041*. If no tax is due, you must file an informational MI-1041. The only exceptions are:

1. Tax-exempt trusts unless the trust has unrelated business income (UBI) attributable to Michigan.

Note: Estates or trusts with a charitable purpose or charitable beneficiaries should contact the Michigan Department of Attorney General, Charitable Trust Section at 517-373-1152 regarding filing requirements.

2. Common trust funds. The trustee must notify each beneficiary of their portion of Michigan income from the fund and of the gains and/or losses available to each under Section 271 of the Michigan Income Tax Act.

3. Nonresident estate or trust with income from Michigan sources less than the federal exemption deduction. The deductions are \$600 for estates, \$300 for trusts currently distributing income, and \$100 for all other trusts. See *Fiduciary Nonresident Schedule* (MI-1041 Schedule NR) instructions for more information.

4. A grantor trust. When the grantor, or another person, is treated as the owner of the trust's assets (Internal Revenue Code (IRC) sections 671 through 678), do not file an MI-1041. Instead, the owner must report the trust's income, deductions, and credits on the owner's *Michigan Individual Income Tax Return* (Form MI-1040).

5. Michigan cannot impose an income tax on income accumulated by a trust that became irrevocable by the death of the settlor (while a Michigan resident) when **all** of the following conditions are met:

- The trustee is not a Michigan resident.
- The assets of the trust are neither held, located, nor administered in Michigan.
- The beneficiaries are all nonresidents.

When to File

Fiduciary returns are due on or before April 17, 2018, or on the 15th day of the fourth month after the close of the tax year. If a refund is due, a return must be filed within four years of the due date to obtain the refund. Keep a copy of the return and all supporting schedules for six years.

Where to Mail the Return

Mail returns without payments to:

Michigan Department of Treasury
P.O. Box 30058
Lansing, MI 48909

Mail returns with payments to:

Michigan Department of Treasury
Department 781041
P.O. Box 78000
Detroit, MI 48278-1041

To ensure accurate processing of the return, send **one check for each return**. Make all checks payable to the "State of Michigan." Write the estate's or trust's federal identification number and "2017 MI-1041" on the front of the check.

Penalty and Interest

If the fiduciary payment is late, the Michigan Department of Treasury (Treasury) will add a penalty of 5 percent of the tax due. After the second month, penalty will increase by an additional 5 percent per month, or fraction thereof, up to a maximum of 25 percent of the tax due. If the fiduciary payment is late, add penalty and interest to the amount due. For the latest interest rates visit, www.michigan.gov/taxes.

Capital Gains/Losses

Adjustments of Capital Gains and Losses (Form MI-1041D) must be used for the following:

- Capital gains election under Section 271 for property acquired before October 1, 1967;
- Sale or exchange of U.S. obligations which cannot be taxed by Michigan; or
- Sale or exchange of property subject to allocation or apportionment provisions.

MI-1041, Schedule 4 must be completed if a capital gain/loss is distributed to beneficiaries and MI-1041D is filed.

Tax Credits an Estate or Trust Can Claim

An estate or trust may be able to claim credits for each of the following:

- Income tax imposed by government units outside Michigan on income also taxed by Michigan.
- Michigan Historic Preservation Tax Credit (nonrefundable).
- Small Business Investment Tax Credit.
- Michigan Historic Preservation Tax Credit (refundable).

A nonrefundable credit is available to owners or long-term lessees of qualified historic resources who undertake rehabilitation projects. To be eligible for the credit, the rehabilitation project must be certified by the State Historic Preservation Office prior to December 31, 2011, and a *Michigan Historic Preservation Tax Credit* (Form 3581) must be included with the Michigan return. For information regarding certification, visit www.michigan.gov/shpo. Form 3581 is available from the resources listed on the front of this booklet. Instructions for credits begin on page 4.

Resident and Nonresident Estates or Trusts

If a decedent was domiciled in Michigan at the time of death, the estate is a **resident estate**.

If a decedent was not domiciled in Michigan at the time of death, the estate is a **nonresident estate**. A trust created by the nonresident decedent's will is a **nonresident trust**.

If a trust was created by a grantor domiciled in Michigan at the time the trust becomes irrevocable, the trust is a **resident trust**. If the grantor was not domiciled in Michigan at the time the trust became irrevocable, the trust is a **nonresident trust**.

Amending

To amend MI-1041, check the box at the top of the MI-1041 and explain the reason for amending on line 40. Include a copy of the amended U.S. Form *1041* with all supporting schedules.

U.S. Form 1041 changes. Treasury must be notified of any changes to the estate's or trust's U.S. Form *1041* if the items changed affect the Michigan liability. File an amended return within 120 days of the change and include payment of the tax due. If there was an overpayment of tax, file an amended return to request a refund.

Extensions

An extension of time to file may be requested by sending Treasury payment of the estimated tax liability with a copy of the federal extension. Treasury will extend the due date to the new federal due date. If a federal extension was not filed, file an *Application for Extension of Time to File Michigan Tax Returns* (Form 4) with the payment and Treasury will grant a 5 1/2 month extension for fiduciary returns. Treasury does not send a notice of approval.

An extension of time to file is not an extension of time to pay. If the tax due is underestimated and the payment made with the extension request is insufficient, interest is due on the unpaid amount. Interest is computed from April 15 (or the due date of the return) to the date the tax is paid. Interest is 1 percent above prime rate and is adjusted on July 1 and January 1.

Treasury may charge a penalty of 10 percent or more if the balance due is not paid with the extension request.

When MI-1041 is filed, include the amount of tax that was paid with the extension request on line 21. Include a copy of the federal or state extension.

Closing an Estate

Before closing an estate, all taxes due must be paid on the liability of the estate and of the decedent. You may then request a tax clearance letter to close the estate by writing to:

Michigan Department of Treasury
P.O. Box 30058
Lansing, MI 48909

Estimated Tax Payments

In general, a fiduciary for an estate or trust must file quarterly estimated payments if the estate or trust is expected to owe more than \$500 with the 2018 return. This is after crediting amounts paid through withholding and all other credits.

If the estate or trust owes more than \$500, estimated payments may not have to be made if the estate or trust expects the 2018 withholding to be at least:

- 90 percent of the total tax for 2018,
- 100 percent of the total tax shown on the 2017 return, or
- 110 percent of the total 2017 tax if the estate's or trust's taxable income for 2017 is more than \$150,000. To figure the estate's or trust's taxable income, see the instructions for line 22 of the U.S. Form 1041. Total tax is the amount on the 2017 MI-1041, line 13.

If estimated payments are necessary, use the *Estimated Income Tax Voucher for Fiduciary and Composite Filers* (Form MI-1041ES). Filing instructions are with the form. **Do Not Use MI-1040ES** to make estimated payments for an estate or trust.

If an estate owes more than \$500, estimated payments do not have to be made if the decedent died within the last two years.

If a fiduciary fails to make required estimated payments, pays late, or underpays, Treasury may charge penalty and interest. Penalty is 25 percent of the tax due (with a minimum of \$25) for failing to file estimated payments, or 10 percent (with a minimum of \$10) for underpaying estimated payments. Interest is 1 percent above the prime rate and is computed monthly. The rate is adjusted on July 1 and January 1.

A financial institution that submits estimated payments through the Federal Tax Deposit System on magnetic tape and acts as a fiduciary for 200 or more trusts must submit Michigan estimated payments on magnetic tape. An institution acting as fiduciary for more than 49 and fewer than 200 trusts may make an irrevocable agreement to file magnetically.

Farmland Preservation Tax Credits

There is no provision for a farmland preservation tax credit on the fiduciary return. If the fiduciary is claiming this credit, use the *Michigan Business Tax Farmland Preservation Tax Credit* (Form 4594).

Bankruptcy Estates

Every trustee (or debtor-in-possession) for an individual's bankruptcy estate under Chapter 7 or 11, of the U.S. Code Title 11, who must file a U.S. Form 1041 must also file an MI-1041. Use MI-1041 only as a transmittal for MI-1040. In the top margin of MI-1040, write "Attachment to MI-1041. Do not detach." Include MI-1040 behind MI-1041. Complete only the identification area of MI-1041. Enter the name of the debtor on line 2 (e.g., "John Smith, Public Bankruptcy Estate"). Enter the name of the trustee on line 4 (e.g., "Allen Snow, Trustee). On MI-1041, line 24, enter the amount from MI-1040, line 33. If applicable, enter on MI-1041, line 27, the amount from MI-1040, line 36. Copies of the U.S. Forms 1040, 1041, and all supporting schedules **must be included** with your Michigan return.

LINE-BY-LINE INSTRUCTIONS

Michigan's fiduciary law is very similar to federal law. These instructions include only those points of Michigan laws and procedures that differ from federal laws and procedures. If a federal short-year return must be filed, a Michigan short-year return must also be filed. Before preparing the MI-1041, complete the U.S. Form 1041 and all supporting schedules.

- All estates and trusts must complete page 1.
- Resident estate and trust filers must complete Schedule 1 if there are any necessary adjustments.
- Complete Schedule 2 if income is distributed and Schedule 1 was not completed.
- Complete Schedule 3 if income is distributed **and** there are adjustments on Schedule 1.
- If the resident estate or trust distributed a capital gain, filers must also complete Schedule 4 and MI-1041D. See "Capital Gains/Losses" on page 2.

Nonresident estate or trust filers may omit lines 8 through 11 on page 1, Schedule 1 and Schedule 3. Nonresident estates or trusts must complete MI-1041D, Schedule 2, MI-1041 Schedule NR if any income is distributed, and Schedule 4 if the estates or trusts distributed any capital gains or losses.

Include a copy of the U.S. Form 1041 and all supporting schedules with the Michigan return.

Line numbers not listed are explained on the form.

PART 1: Name and Identification

Lines 1 through 7: Complete all items. Enter the full nine-digit Federal Employer Identification Number (FEIN). Enter a mailing address that Treasury can use to request more information or to issue a refund.

PART 2: Income and Adjustments

Line 8: Enter taxable income of the estate or trust from U.S. Form 1041, line 22, or U.S. Form 990-T.

Line 9: Enter federal taxable income of Electing Small Business Trusts (ESBT) from the Sec. 641(c) worksheet attached to the U.S. Form 1041. Include a copy of the worksheet with the Michigan return.

Line 10: A fiduciary for a resident estate or trust should complete Schedule 1 if there are Michigan adjustments to

federal taxable income. If no income was distributed, enter the amount from line 39 on line 10. If any income was distributed, complete Schedules 2 and 3. Enter the amount from line 41, column C, on line 10.

Line 11: Capital Gain/Loss Adjustments for Resident Estates or Trusts. Enter the amount from MI-1041D, line 21, if any (see “Capital Gains/Losses” on page 2).

PART 3: Credits and Payments

Line 14: Credit for Income Tax Paid to Another State. Include the amount of income tax paid to:

- A nonreciprocal state
- A local government unit outside Michigan, including tax paid to local units located in reciprocal states
- The District of Columbia
- A Canadian province.

Include only income tax paid to another state on income earned by a resident estate or trust and taxed by Michigan.

Include a copy of the return filed with the other government unit with the MI-1041.

Do **not** include taxes paid on income subtracted on lines 34 through 37 of MI-1041 (e.g., rental or business income from another state). If credit is claimed for a Canadian provincial tax, file a *Resident Credit for Tax Imposed by a Canadian Province* (Michigan Form 777). Include copies of the appropriate Canadian federal T-3 fiduciary tax return, *Computation of Foreign Tax Credit* (U.S. Form 1116) and U.S. Form 1041. The credit is limited to the part of the Canadian provincial tax not used as a credit on the U.S. Form 1041.

Line 14a: Enter the total income tax paid to other government units on income also taxed by Michigan. Include a schedule if tax was paid to more than one source.

Line 14b: Calculate the maximum allowable credit as follows:

1. Divide out-of-state income subject to tax by both states by total income subject to Michigan tax.
2. Multiply the amount of tax shown on line 13 by the result.
3. Enter the allowable credit, which is the smaller of:
 - The calculation or
 - The tax imposed by another government.

Line 15: Michigan Historic Preservation Tax Credit (Form 3581)

Line 15a: Enter the amount from your 2017 Form 3581, line 9.

Line 15b: Enter the amount from your 2017 Form 3581, line 14.

Line 16: Small Business Investment Tax (Venture Investment) Credit. Estates and trusts eligible for this credit will have a certificate from the Michigan Strategic Fund, which must be included to the return.

Line 19: Enter amount from your 2017 Form 3581, line 16a or 16b.

Line 20: State Income Tax Withheld. Use line 20 to claim a credit for any Michigan income tax withheld by:

- An employer on wages and salaries of a decedent received by the decedent’s estate.
- A payer of certain gambling winnings (for example, state lottery winnings).
- A payer of distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc., received by a decedent’s estate or trust

- Flow-through withholding paid on behalf of the fiduciary or trust. Do not include withholding that was claimed on *Michigan Composite Individual Income Tax Return* (Form 807) or refunded on *Annual Flow-Through Withholding Reconciliation Return* (Form 4918).

Include a copy of your 2017 *Michigan Fiduciary Withholding Tax Schedule* (Form MI-1041 Schedule W) and all supporting documents.

Line 21: Payments. Enter the total estimated tax paid with the 2017 MI-1041ES and any Michigan tax paid with an extension request. See line 24 instructions.

Note: Michigan does not allow the estate’s or trust’s estimated tax payments and/or withholding payments to be transferred to beneficiaries.

Line 22: Enter the amount of the 2016 overpayment applied to this year’s tax from 2016 MI-1041, line 26.

PART 4: Balance Due or Refund

Line 24: Tax Due. If line 23 is less than line 18, enter the difference. This is the tax owed with the return. The return must be filed even if the balance due is less than \$1 and no payment is required. If penalty and interest are due for late payment of tax, enter these amounts on the appropriate lines. See “Penalty and Interest” on page 2. Add penalty and interest to the tax due and enter the total.

If the estate or trust owes more than \$500 and is required to file estimated payments, penalty and interest may be due for underpayment, late payment, or failing to pay estimated payments. Use the *Underpayment of Estimated Income Tax* (Form MI-2210) to compute interest and penalty. If MI-2210 is filed, check the box on line 24 and enter the interest and penalty amount on the line provided. Obtain complete instructions for MI-2210 from the resources listed on the cover of this instruction booklet.

Line 27: Refund. Subtract line 26 from line 25. This is the refund. The State does not refund amounts less than \$1.

SCHEDULE 1: Net Michigan Adjustment for Resident Estates or Trusts

ADDITIONS

Line 28: Enter gross interest and dividend income from obligations or securities of states and their political subdivisions other than Michigan. Include this interest income from partnerships, S corporations, and other estates and trusts.

Line 29: Enter taxes deducted on U.S. Form 1041, line 11, which were imposed on or measured by income, such as state or city income taxes.

Line 31: Enter expenses and interest incurred in production of income from obligations of the U.S. government on U.S. Form 1041. Enter on this line any interest expense on indebtedness incurred in carrying the obligations and any related expenses that were deducted in arriving at federal taxable income.

Line 32: Enter any adjustments not taken into account on lines 28 through 31, such as gross expenses from the production of Michigan oil and gas and nonferrous metallic minerals extraction subject to Michigan severance tax. Include a schedule showing these items and their locations. Losses from a business partnership or property located in another state must be added back on this line along with any federal net operating loss deduction (NOLD) that is included on line 8.

SUBTRACTIONS

Line 34: Enter the income from U.S. government obligations (e.g., U.S. Series E Bonds). This income may be subtracted even if it comes through a partnership, S corporation, or another estate or trust. Include a schedule showing the source of the income from U.S. obligations (Treasury Bonds, Series E bonds, etc.) and the amount of income from each source.

Line 35: Enter income attributable to another state. Explain the type and source of income. Include a schedule if necessary. The following are examples of income attributed to another state:

- Net rents and royalties from real and personal property located or used in other states.
- Business income included in taxable income that was earned solely in other states. (Losses from an activity in another state that have reduced federal taxable income must be entered as a positive figure on line 32.)

Business income from an activity that is taxable both within and out of Michigan must be apportioned among the states involved. Complete and include a *Schedule of Apportionment* (Form MI-1040H). Salaries, wages, and other compensation for personal services are not business income.

Note: Capital gains from the sale of real or personal property located in other states at the time of disposal are adjusted on MI-1041D and factored into line 11.

Resident estates cannot subtract salaries and wages earned by the decedent in another state. However, the estate may be entitled to a tax credit for tax imposed by another state. See line 14 instructions on page 4.

Line 36: Enter expenses related to obligations of other states not deducted on U.S. Form 1041 or not allowed as a deduction by IRC Section 265. Also enter interest expense on indebtedness incurred in carrying the obligations and related expenses that were not used on U.S. Form 1041.

Line 37: Enter subtractions not taken into account on lines 34 through 36, such as a Michigan NOL or gross income and related expenses from producing Michigan oil and gas and nonferrous metallic minerals extraction to the extent subject to Michigan severance tax and included in federal taxable income. Provide a schedule listing these subtractions and include supporting documentation.

Retirement or pension benefits may not be subtracted.

Line 39: Subtract line 38 from line 33. If no income was distributed, enter the amount from line 39 on line 10. Otherwise, complete Schedules 2 and 3.

Signatures and Declarations

The fiduciary or the officer representing the fiduciary must sign the return. Before mailing the return:

- Verify that all forms are completed using the correct tax year.
- Include all required Michigan attachments.
- The corresponding U.S. Form 1041 must also be included.

SCHEDULE 2: Beneficiary Identification

Note: Schedule 2 must be completed if any income is distributed. Otherwise, it is not necessary.

Enter in the appropriate column the name, residency status, address, and Social Security number or Federal Employer Identification Number (FEIN) of each beneficiary of the estate or trust, both residents and nonresidents. Identify residents with an “R” and nonresidents with “NR.” When completing the rest of this form, use the lower-case letter (a, b, c, etc.) to the left of each name to refer to a beneficiary listed in Schedule 2. If additional space is needed, include a schedule similar to Schedule 2 identifying additional beneficiaries by consecutive letters.

SCHEDULE 3: Allocation of Net Michigan Adjustment for Resident Estates or Trusts

If any income is distributed, the net Michigan adjustment for resident estates or trusts from MI-1041, line 39, must be allocated in the proportion that each beneficiary’s share of federal distributable net income bears to the total federal distributable net income with the remaining portion going to the fiduciary.

If the estate or trust has no distributable net income for the taxable year, the net Michigan adjustment will be allocated in the proportion that each beneficiary’s share of the distributed estate or trust income for the year bears to the total estate or trust income with the remaining portion going to the fiduciary. (Distributed income includes amounts required to be distributed currently under local law or the terms of the estate or trust instrument, and any other amounts distributed.)

Use Schedule 3 to compute this allocation. See Example for Completing Schedule 3 on page 6. These percentages may not be the same as the distribution percentages listed in the estate or trust instrument.

Complete columns A, B, and C one column at a time.

Identify each beneficiary by locating the lower-case letter from Schedule 2.

Column A: Enter the distributions reported to each beneficiary on his or her U.S. *Schedule K-1* in columns provided. Indicate the sources, locations, and amounts for each type of income such as dividends, rents, interest, etc. Enter the fiduciary’s share on line 41. The total on line 42 should equal the distributable net income reported on U.S. Form 1041, Schedule B.

Column B: Divide each amount in column A by the total on line 42 and enter the percent in column B.

Column C: Multiply the amount on Schedule 1, line 39, by the percentage in column B. Enter the result in column D for each beneficiary and the fiduciary. Carry the fiduciary’s share (line 41) to Part 2, line 10. The total on line 42C must equal the amount on Schedule 1, line 39.

Example for Completing Schedule 3

For this example, the fiduciary has reported \$5,000 on MI-1041 Schedule 1, line 39.

Beneficiary Identification from Schedule 2	A Federal Distributable Net Income			B Percentage of Amount in Column A	C Allocation of Net Michigan Adjustment (Multiply amount on line 39 by percentage in Column B)
	Type of Income (Dividend, Interest, Rent, etc.)	Location (City, State)	Amount		
a.	Rent and Capital Gains	Lansing, MI	\$2,420	9.4642%	\$473
b.	Rent and Capital Gains	Lansing, MI	20,550	80.3676%	4,018
c.	Rent and Capital Gains	Lansing, MI	600	2.3465%	117
41. Fiduciary's Share			2,000	7.8217%	391
42. Total			\$25,570	100%	\$5,000

SCHEDULE 4 - Capital Gain or (Loss) Distributed to Beneficiaries When Form MI-1041D Is Filed

Complete Schedule 4 if capital gains or losses have been distributed to beneficiaries and MI-1041D was completed.

Identify each beneficiary using the lower-case beneficiary identification letter from Schedule 2.

Column A: (Federal) Enter each beneficiary's share of capital gain/loss as reported on U.S. *Schedule K-1 (Form 1041)*.

Column B: (Michigan) Enter each beneficiary's share of capital gain/loss as recomputed on Form MI-1041D.

Line 43: Enter the total of all beneficiaries' shares. Line 43 totals in the federal and Michigan columns must equal the beneficiaries' amounts reported on U.S. *Schedule D (Form 1041)* Part III, column (I) or Form MI-1041D, Part 3, line 15, column C.

OTHER NECESSARY FORMS

For the Fiduciary

The fiduciary must provide a U.S. *Schedule K-1* to each beneficiary. The fiduciary must also provide notice of Michigan adjustments to each beneficiary. The notice may be noted on a copy of the U.S. *Schedule K-1* or a separate letter to each beneficiary. If a letter is used, it must include the name and federal identification number of the estate or trust. Each beneficiary must be advised of his or her share of the following:

- Michigan adjustments from resident estates or trusts.
- Michigan income from nonresident estates or trusts.
- Capital gains/losses available for adjustment under Section 271 of the Michigan Income Tax Act.
- Small Business Investment Tax Credit Certificate if a credit is claimed on line 16.

For the Beneficiary

All resident and nonresident beneficiaries should file an MI-1040, if applicable. See the MI-1040 instruction booklet for who must file. Beneficiaries should follow the instruction booklet to compute Michigan taxable income.

Beneficiaries should include copies of the following items with their MI-1040 individual return:

- U.S. *Schedule K-1* including footnotes.
- The letter received from the fiduciary notifying the beneficiary of Michigan adjustments or Michigan income.
- MI-1040D, if the beneficiary is eligible to adjust gains and losses under Section 271 of the Michigan Income Tax Act.

Note: Excess deductions available upon termination of an estate or trust may be passed on to the beneficiaries. They are reported on U.S. Form *1040, Schedule A*, and do not reduce federal adjusted gross income (AGI). Itemized deductions are not an allowable subtraction on the Michigan return. Michigan follows the federal guidelines regarding the termination of an estate or trust and the treatment of any unused NOL carryover. To be eligible to claim the unused NOL carryover, a copy of the final U.S. Form *1041 Schedule K-1* must be provided.