

and interest and send you a bill. If you annualize your income, you must complete and attach an MI-2210. Enter the penalty and interest amounts on the lines provided.

Line 35: 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, credit, or zero returns” address on page 2 of your MI-1040.

Direct Deposit

First check with your financial institution to (1) make sure it will accept Direct Deposit, (2) obtain the correct Routing Transit Number (RTN) and account number, and (3) if applicable, verify that your financial institution will allow a joint refund to be deposited into an individual account.

Direct Deposit requests associated with a foreign bank account are classified as International ACH Transactions (IAT). If your income tax refund Direct Deposit is forwarded or transferred to a bank account in a foreign country your Direct Deposit will be returned to Treasury. If this occurs, your refund will be converted to a check (warrant) and mailed to the address on your tax return. Contact your financial institution for questions regarding the status of your account.

a. RTN. Enter the nine-digit RTN. The RTN is usually found between the symbols |: and |: on the bottom of your check. The first two digits must be 01 through 12 or 21 through 32.

b. Account Number. Enter your financial institution account number up to 17 characters (both numbers and letters).

The account number is usually found immediately to the right of the RTN on the bottom of your check. Include hyphens but omit spaces and special symbols. Do **not** include the check number.

c. Type of Account. Check the box for checking or savings.

When You Are Finished

Sign Your Return. Each spouse must sign a joint return. If the tax preparer is someone other than the taxpayer, he or she must include the name and address of the firm he or she represents and tax preparer tax identification or federal employer identification number. Check the box to indicate if Treasury may discuss your return with your preparer.

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.”

Attachments. Attach all your credit claims and required Michigan and federal schedules (see Table 3 on page 59).

If you owe tax. Make your check payable to “**State of Michigan.**” **Print your Social Security number and “2012 income tax”** on the front of your check. If paying on behalf of another taxpayer, write the taxpayer’s name and Social Security number on the check. Enclose your payment but do **not** staple it to the return. Checks stapled to the back of the return may not be seen and may result in improper processing.

The **filing deadline to receive a refund** for tax year 2012 is April 17, 2017.

Line-by-Line Instructions for Schedule 1, *Additions and Subtractions*

Part-year and nonresidents, complete Schedule NR (see page 49) 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 Internal Revenue Code (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 Adjustments of Capital Gains and Losses* (MI-1040D) and related *Michigan Sales and Other Dispositions of Capital Assets* (MI-8949) **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 located in other states.

If you reported gains on U.S. Form 4797 on property acquired before October 1, 1967, or located in other states, adjust the gain on the *Michigan Adjustments of Gains and Losses From Sales of Business Property* (MI-4797).

Enter gains from the Michigan column of MI-1040D, line 12, and MI-4797, line 18b(2). Instructions are with each form.

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

Line 5: Enter the net loss from the federal column of your MI-1040D, line 13, or MI-4797, line 18b(2) as a positive number.

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

- Add, to the extent not included in AGI, the amount of money withdrawn in the tax year from a Michigan Education Savings Program (MESP) account, including the MI 529 Advisor Plan (MAP), if the withdrawal was not a

qualified withdrawal as provided in the MESP Act. You may first exclude any amount that represents a return of contributions for which no deduction was claimed in any prior tax year.

- Add back gross expenses of producing oil and gas (subject to Michigan severance tax) to the extent deducted in AGI.
- Amount of NOL deduction (NOL carryforward) used to reduce AGI (see page 8).
- 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 2012 because the MET contract was terminated, enter the smaller of: (1) the refund you received or (2) the amount of the original MET contract price including fees which you deducted in previous years.

Subtractions From Income

Note: Part-year and nonresidents, subtract only income attributable to Michigan (Schedule NR, column B) that is not included on line 11.

Line 8: Enter income from U.S. government obligations (e.g., Series EE bonds, Treasury notes, etc.), including income from U.S. government obligations received through a partnership, S corporation, or other pass-through entity. This subtraction must be reduced by related expenses used to arrive at AGI.

Investment companies that invest in U.S. obligations are permitted to pass the tax-free exemption to their shareholders.

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

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

Line 9: Enter compensation received for active duty in the U.S. Armed Forces included in AGI. Include military and Michigan National Guard retirement here.

Note: Compensation from the U.S. Public Health Service is **not** considered military pay.

Line 10: Enter the gains from the federal column of your MI-1040D, line 12, and MI-4797, line 18b(2). See instructions for Michigan Schedule 1, line 3 on page 13.

Line 11: Income Attributable to Another State. Nonresidents and part-year residents, complete Schedule NR. See instructions on page 50. Attach federal schedules.

Business income that is taxed by Michigan and another state must be apportioned. You must complete and attach MI-1040H. Income reported on the MI-4797 and carried to the MI-1040D is business income, potentially subject to apportionment.

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

Michigan residents cannot subtract salaries and wages or other compensation earned outside Michigan. However, they may be entitled to a tax credit for income tax imposed by government units outside Michigan (see page 11).

Residents may subtract:

- Net business income earned in other states and included in AGI, and
- Net rents and royalties from real property or tangible personal property located or used in another state.

Line 12: Qualifying retirement and pension benefits included in your AGI may be subtracted from income. Beginning in 2012, pension and retirement benefits will be taxed differently depending on the age of the recipient. See “Which Benefits are Taxable” on page 16. You must attach Form 4884.

Line 13: Senior citizens (age 67 or older) may subtract interest, dividends, and capital gains included in AGI. This subtraction is limited to a maximum of \$10,545 on a single return or \$21,091 on a joint return. However, the maximum must be reduced by the retirement pension subtraction claimed on line 12. For help in calculating this subtraction, see “Tax Information for Seniors and Retirees” on Treasury’s Web site at www.michigan.gov/incometax.

Line 14: Enter only the taxable portion of Social Security and railroad retirement benefits (tier 1 and tier 2) included on your U.S. Form *1040*, or your U.S. Form *1040A*. 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 designated prior to January 1, 2012, for at least 183 consecutive days.
- Be approved by your local assessor’s office.
- Not be delinquent for any State or local taxes abated by the Renaissance Zone Act.
- File an MI-1040 each year.
- Have gross income of \$1 million or less.

If you were a full-year resident of a Renaissance Zone, you may subtract all income earned or received. Unearned income, such as capital gains, may have to be prorated. If you lived in the Zone at least 183 consecutive days during 2012, you may subtract the portion of income earned while a resident of the Zone. If you are a part-year resident of a Zone, you must complete and attach a Schedule NR to your MI-1040. (See “Special Note” on the back of Schedule NR, page 50.)

Certain Renaissance Zones began to phase out in 2007. The tax exemption is reduced in increments of 25 percent during the Zone’s final three years of existence. If you are a resident of a Zone that is phasing out (check with your local unit of government), you must reduce your deduction as follows:

- 25 percent for the tax year that is two years before the final year of designation as a Renaissance Zone.
- 50 percent for the tax year immediately preceding the final year of the designation as a Renaissance Zone.
- 75 percent for the tax year that is the final year of the designation as a Renaissance Zone.

For additional information regarding qualifications for the Renaissance Zone deduction, call the Michigan Economic Development Corporation at (517) 373-9808.

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 income tax refund and homestead property tax credit exceeds the business portion of your homestead property tax credit.

Line 17: Michigan Education Savings Program. You may deduct, to the extent not deducted in calculating AGI, the total of all contributions less qualified withdrawals and rollovers (compute the contributions, withdrawals and rollovers separately for each account) made during 2012 by the taxpayer in the tax year to accounts established through the MESP, including the MAP. The deduction may not exceed \$5,000 for a single return or \$10,000 for a joint return per tax year. There are numerous education savings accounts available from other states and investment companies, but Michigan only allows a tax deduction for contributions to accounts established through MESP and MAP.

Line 18: Michigan Education Trust. You may deduct the following:

- If you purchased a MET contract during 2012, you may deduct the total contract price (including the processing fee).
- If you made a charitable contribution to the MET Charitable Tuition Program during 2012, you may deduct the total contribution amount. You will receive a statement from MET to confirm the amount. All charitable donations will go toward providing scholarships to foster care students at Michigan public colleges.
- If you purchased a MET payroll deduction or monthly purchase contract, you may deduct the amount paid on that contract during 2012 (not including fees for late payments or insufficient funds). You will receive an annual statement from MET specifying this amount.
- If you have terminated a MET contract, you may deduct the amount included in AGI as income to the purchaser.

Line 19: Net Operating Loss (NOL) Deduction. You may only deduct the Michigan NOL. Your Michigan NOL must be reduced by the Michigan apportionment of the domestic production activities deduction that was used to arrive at your 2012 AGI. You must attach Form MI-1045, pages 1 and 2 of your federal return and all supporting schedules.

Line 20: Miscellaneous subtractions include:

- Any part of a qualified withdrawal from an MESP account, including the MAP, included in AGI.
- Benefits from a discriminatory self-insured medical expense reimbursement plan, to the extent these reimbursements are included in AGI.
- Losses from the disposal of property reported in the Michigan column of MI-1040D, line 13, or MI-4797, line 18b(2).
- Amount used to determine the credit for elderly or totally and permanently disabled from U.S. Form 1040A or U.S. Form 1040 Schedule R.

- Subtract the gross income from producing oil and gas (subject to Michigan severance tax) to the extent included in AGI.

- Holocaust victim payments.

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.
- Contributions to national or Michigan political parties or candidates.
- Proceeds and prizes won in State of Michigan regulated bingo, raffle, or charity games.
- Both the gross income and related expenses from oil and gas production if the gross income was subject to severance tax.
- Distributions from a retirement or pension plan contributed to a qualified charitable organization.
- 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.) Include installment gross winnings as reported on your Form W-2G, box 1, and enter on your Schedule W, Table 1.

What are 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. 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 pension and retirement benefits under Michigan law, are taxable and are subject to withholding.

Qualifying benefits include distributions from the following sources:

- Pension plans that define eligibility for retirement and set contribution and benefit amounts in advance.
- Qualified retirement plans for the self-employed.
- Retirement distributions from a 401(k) or 403(b) 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 59½ or described by Section 72(t)(2)(A)(iv) of the IRC (series of equal periodic payments made for life).
- Benefits from any of the previous plans received due to a disability, or as a surviving spouse if the decedent qualified for the subtraction at the time of death and was born prior to January 1, 1953.
- Benefits paid to a senior citizen (age 65 or older) from a retirement annuity policy that are paid for life (as opposed to a specified number of years).

Qualifying public benefits include distributions from the following sources:

- The State of Michigan.
- Michigan local governmental units (e.g., Michigan counties, cities, and school districts).
- Federal civil service.

For public and private pension or retirement benefits, 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 Sections 401(k), 457, and 403(b) of the IRC.
- 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.

Which Benefits are Taxable

Beginning in 2012, pension and retirement benefits will be taxed differently depending on the age of the recipient. Married couples filing a joint return should complete the *Michigan Pension Schedule* (Form 4884) based on the year of birth of the older spouse. Military and Michigan National Guard pensions, Social Security benefits and railroad retirement benefits continue to be exempt from tax.

Who May Claim a Pension Subtraction

- **Recipients born before 1946**, the law remains the same as it was prior to 2012. 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 \$47,309 if single or married filing separate, or \$94,618 if married filing a joint return. If your public retirement benefits are greater than the maximum amounts you are not entitled to claim a subtraction for private pensions.
- **Recipients born during the period 1946 through 1952** will be able to deduct up to \$20,000 in pension and retirement benefits if single or married filing separate or up to \$40,000 if married filing a joint return. All pension or retirement benefits (public and private) are treated the same.
- **Recipients born after 1952**, all pension and retirement benefits are taxable and you are not entitled to a pension subtraction.

NOTE: When completing Form 4884, surviving spouse means the deceased spouse died prior to the current tax year (e.g., when filing a 2012 return the spouse died in 2007.)

FORM 4884 TABLE A: MAXIMUM ALLOWABLE PENSION DEDUCTION

<u>Year of Birth</u>	Filing Status	Filing Status
	Single or Married, Filing Separately <u>as of 12/31/2012</u>	Married, Filing Jointly <u>as of 12/31/2012</u>
Prior to 1/1/1946	\$47,309	\$94,618
Between 1/1/1946-12/31/1952	\$20,000	\$40,000
On or after 1/1/1953	\$0	\$0

Line-by-Line Instructions for Michigan Pension Schedule (Form 4884)

Lines not listed are explained on the form.

Lines 1, 2, and 3: Enter your name(s) and Social Security number(s). If you are married, filing separate returns, enter both Social Security numbers, but do **not** enter your spouse's name.

Lines 4 and 5: Enter your year(s) of birth. If you are married and filing separately, do not enter your spouse's year of birth.

NOTE: If you are receiving pension benefits from a deceased spouse, who was born prior to January 1, 1953, before completing the rest of this form, go to page 2, part 3.

If filer or spouse (including deceased spouse) were born prior to January 1, 1946, and had public pension benefits, complete lines 6, 13 (a-c) and 14. Then use the combined retirement/pension information from Part 2 and Part 3 to complete the worksheet below. If filer, or spouse if filing a joint return, were born prior to January 1, 1946, complete the worksheet using the combined retirement/pension income received from all sources. If public retirement/pension benefits are received from a deceased spouse and only the deceased spouse was born prior to January 1, 1946, complete the worksheet using only the benefits received for the deceased spouse.

Line 6: If you have more than six qualifying entries, continue those entries on the 2012 Michigan Pension Continuation Schedule (Form 4973).

Line 8: From Form 4884 Table A (see page 16), enter your maximum allowable pension deduction based on your filing status and year of birth of the oldest spouse.

Line 11: If you or your spouse were born before 1946 and received public pension benefits, complete the Public Pension Deduction Worksheet below and enter the amount from the Worksheet line 6.

Line 13: Enter deceased spouse name, Social Security number and year of birth. If deceased spouse was born after December 31, 1952, STOP; you may not deduct benefits from the deceased spouse.

Line 16: From Form 4884 Table A, enter your maximum allowable pension deduction based on your filing status and year of birth of the deceased spouse. If the decedent was born before 1946 and received public pension benefits, complete the Public Pension Deduction Worksheet below using only the decedent's pension benefits and enter the amount from the Worksheet line 6.

FORM 4884 WORKSHEET 2 - PUBLIC PENSION DEDUCTION WORKSHEET (ONLY for taxpayers born prior to January 1, 1946)

If filer or spouse (including deceased spouse) were born prior to January 1, 1946 and had public pension benefits, complete this worksheet. If filer, or spouse if filing a joint return, were born prior to January 1, 1946, complete the worksheet using the combined retirement/pension income received from all sources. If public retirement/pension benefits are received from a deceased spouse and only the deceased spouse was born prior to January 1, 1946, complete the worksheet using only the benefits received for the deceased spouse.

Line 1: Enter **public** pension or retirement benefits received. Do not include Social Security benefits. \$ _____

Line 2: Enter \$47,309 if single filer or married filing separately. Enter \$94,618 if filing a joint return..... \$ _____

Line 3: Subtract line 1 from line 2. If negative, enter "0." \$ _____

Line 4: Enter **private** pension or retirement benefits received \$ _____

Line 5: Enter the lesser amount of line 3 or line 4..... \$ _____

Line 6: Add lines 1 and 5. Carry the amount from line 6 of this worksheet to line 11 of form 4884 unless the public pension is only from a deceased spouse then carry the amount from line 6 of this worksheet to line 16 of form 4884. \$ _____

NOTE: Certain amounts of interest/dividends/capital gains and pension distributions can be subtracted from taxable income. **An online estimator is available to assist taxpayers in determining what amounts can be subtracted.** Visit www.michigan.gov/taxes and select "Pension Estimator" from the Quick List, Services dropdown menu.