MICHIGAN HISTORIC PRESERVATION CREDIT

For plans approved before 2012, a taxpayer is allowed a nonrefundable credit of 25 percent of the qualified expenditures for the rehabilitation of a historic resource pursuant to a rehabilitation plan. The rehabilitation plan and completed rehabilitation of the historic resource must be certified by the State Historic Preservation Office.

The claimant must claim the Historic Preservation Credit in the year the project is certified and completed. Any unused portion of the credit may be carried forward for a maximum of ten years. Taxpayers that have a carry forward of an unused portion of the credit should file *Historic Preservation Tax Credit* (Form 3581).

For tax years beginning after 2008, a taxpayer may elect to receive a refund of 90 percent of the amount of the credit that exceeds their tax liability instead of carrying the excess forward for projects for which a certificate of completed rehabilitation was issued after 2008 and the credit amount was less than $250,000.

For more information on how to qualify, visit the State Historic Preservation Office at www.michigan.gov/shpo or call 517-373-1630.

TAX CREDITS (REFUNDABLE)

HOMESTEAD PROPERTY TAX CREDIT

This credit is covered in Chapter 3 of this Manual.

FARMLAND PRESERVATION TAX CREDIT

This credit is for taxpayers who have entered into a Farmland Development Rights Agreement (FDRA) with the Department of Agriculture and Rural Development (MDARD). To receive this credit, complete Form MI-1040CR-5 and attach it to Form MI-1040.

When a Farmland Preservation Tax Credit is claimed, the taxpayer must attach the following items to Form MI-1040:

1. Property tax bills for 2018, with the agreement number listed on each of the tax bills and a receipt verifying payment of 2017 or 2018 property taxes. (Failure to show proof of payment will result in a check jointly payable to the taxpayer and the county treasurer.)

2. If ownership of the agreement is other than an individual, then appropriate distribution statement or partnership schedules.

Taxpayers who claim a farmland preservation tax credit may also claim a credit for a homestead property tax credit using the same taxes. However, total credits cannot exceed property taxes levied for the tax year.

Renter

If claimants are renters and heating costs are **currently** included in their rent, the standard home heating credit is reduced by 50 percent. An individual, who currently pays the landlord separately for heat, and not the heat provider, must also reduce the credit by 50 percent.

Michigan Resident, Full-Year

The following example illustrates how to compute the credit for full-year residents based on the above table. The table can also be found on page 19 (Table A) of the instruction booklet. If the eligible claimant's THR exceeds the income ceiling corresponding to the number of exemptions allowed on the home heating credit claim, the individual is not eligible for a credit.

Example: John and Mary Smith (a married couple), both 65 years old in 2018, had total household resources of $8,200. Mary was totally and permanently disabled in 2018. They are entitled to three exemptions on the 2018 claim.

Standard Allowance for 3 Exemptions	$801	
Less 3.5% of Total Household Resources (0.035 x $8,200)	-287	
Home Heating Credit	$514	(subject to possible proration)

If John and Mary rented their homestead and heating costs were included in their rent, the credit would be computed as follows:

Home Heating Credit (From Above)	$514	
Less 50% of the Credit (0.5 x $514)	-257	
Reduced Home Heating Credit	$257	(subject to possible proration)

Part-Year Resident or Deceased Claimant

The standard allowance is prorated and only the THR received while the claimant was a Michigan resident is used to compute the credit.

Example: John and Mary Doe (a married couple) moved to Michigan on May 1. They have four children which entitles them to a total of six exemptions. Their Michigan income is $14,700.

1. $\frac{\text{No. of Days in Michigan}}{\text{365 Days}}$ x Standard Allowance = Prorated Standard Allowance

$\frac{245}{365}$ = (67%) x $1,300 = $871

2. Prorated Standard Allowance	\$871
Less 3.5% of Total Household Resources	
(0.035 x \$14,700)	-515
Home Heating Credit	\$356 (subject to possible proration)

If John and Mary Doe rented their homestead and heating costs were included in their rent, the home heating credit would be reduced by 50 percent.

Home Heating	\$356
Less 50%	
(0.5 x \$356)	-178
Reduced Home Heating Credit	\$178 (subject to possible proration)

Adults Sharing a Homestead

If a claimant **shares** a home but is **not** the owner or did **not** have a lease agreement to pay rent, he or she cannot claim a credit.

When people who are not spouses **own or rent a home jointly**, each can claim a home heating credit based on individual THR and his or her share of the standard allowance. Determine the standard allowance from Table A on page 19 in the instruction booklet, using the total number of personal exemptions in the home. Do **not** include Michigan special exemptions or dependent exemptions in this total. Divide the standard allowance by the number of claimants in the home.

Example: Three unrelated men share an apartment. Each has a signed lease and pays 1/3 of the rent. The standard allowance for three exemptions is \$801. Each person must use a standard allowance of \$267 (\$801 ÷ 3) to compute his credit.

If eligible for a dependent exemption or for a special exemption for deafness, blindness, disability, or qualified disabled veteran, compute the standard allowance following this example.

Example: Sisters Emma and Ruth share a home. Emma is age 61 and Ruth is age 63 and blind. They file separate Form MI-1040CR-7 claims. They must first divide the \$635 standard allowance by 2. Emma's allowance is \$318. However, Ruth qualifies for an extra exemption for blindness. She adds to her share of the standard allowance of \$318, the difference between the standard allowance for three (\$801) and the standard allowance for two (\$635) as follows:

\$801 - \$635 = \$166 + \$318 = \$484 Allowance for Ruth

The claimants in these situations may want to include a letter of explanation when more than one individual is claiming a credit for the same address.

Condominium Owner

The owner of a condominium, who does not contract separately for heating costs but pays a maintenance fee, does not have to reduce the claim to 50 percent. Leave box 7 blank, do not make an entry on line 38, and include a letter of explanation.

ALTERNATE CREDIT COMPUTATION FOR 2018

The alternate credit computation is based on THR and total heating costs.

For 2018, a claimant's THR may not exceed the maximum income amount corresponding to the number of exemptions claimed on the form based on the following table. (Table B is on page 19 of the instruction booklet.):

Exemptions	Maximum Income
0 or 1	$14,472
2	$19,475
3	$24,483
4 or more	$24,918

Heating Costs

A claimant must report his or her total heating costs for the 12 consecutive monthly billing periods ending in October of the tax year. A claimant should contact his or her enrolled heating provider for this information. If claimant is not a customer of an enrolled heating fuel provider, use billing statements to calculate the total cost for the 12 consecutive months ending in October of the tax year. Enter the lesser of total heat cost or $2,741.

Heating costs include amounts paid for fuel oil, electricity (if homestead has electric heat), gas, coal, wood, or propane. The cost of wood is the amount spent during the 12 consecutive months ending sometime in October of the tax year or the fair market value if harvested from property owned by the claimant.

Michigan Resident, Full-Year

The following example illustrates how to compute the alternate credit for a full-year resident based on Table B on page 19 of the instruction booklet.

Example: James and Jean Smith (a married couple) have THR of $13,000 and three exemptions. Their total heating cost is $1,950. Their THR does not exceed the maximum income allowed for 3 exemptions.

Fuel Cost	$1,950	
Less 11% of Total Household Resources	- 1,430	
(0.11 x $13,000)		
Balance	520	
Multiply by 70%	x 0.70	
Home Heating Credit	$364	(subject to possible proration)

Part-Year Resident or Deceased Claimant

The alternate credit is not available for part-year residents or deceased claimants who died during the tax year. If the claim is for less than 12 months use the standard credit.

Adults Sharing a Homestead

If a claimant **shares** a home but is **not** the owner or did **not** have a lease agreement to pay rent, he or she cannot claim a credit.

When people who are not spouses **own or rent a home jointly**, each can claim a home heating credit based on individual THR.

If the heating costs are in the names of all those who share the homestead divide the heating costs by the number of claimants in the home and enter that amount in box 11. Complete both the standard credit and alternate credit computations on page 2; the claimant's credit is the greater of the two calculations. Use the shared housing standard allowance when computing the standard credit.

CREDIT PAYMENTS

ENERGY DRAFTS OR WARRANTS (CHECKS)

If, at the time of filing, the claimant pays his or her own heating costs, the taxpayer will receive an energy draft.

If, at the time of filing, the claimant's heat is included in rent, the taxpayer will receive a check.

For claimants whose heat is provided by DTE Energy, Consumers Energy, or SEMCO Energy, the home heating credit will be sent directly to the heat provider. If the credit amount exceeded the heat account balance, check the box on line 15 to receive a refund from the heat provider for the overpayment, if eligible. If not eligible, the excess refund will be used toward future bills. If after nine months there is still refund money due, the heat provider will send the excess refund to the individual. Eligibility requirements are: 1) no outstanding balance with the heat provider **and** 2) no heat assistance received in the past 12 months.

DIRECT DEPOSIT

Claimants who will receive the home heating credit payment as a check may choose to direct deposit the credit payment. Direct deposit information for a Home Heating Credit Claim is entered on **Form 3174**. See the end of the instruction booklet for this form and its instructions. Ask to see proof of the claimant's RTN (routing number) and account number. It is important to enter all direct deposit information accurately.

CHAPTER 5
ADDITIONAL INFORMATION

TAXABILITY OF FEDERAL OBLIGATIONS

Income from certain U.S. Obligations, reduced by any expenses in carrying the obligation used in arriving at federal AGI, can be subtracted on the Michigan return.

The following U.S. Obligations are exempt from Michigan Individual Income Tax:

- U.S. Government Bonds
- U.S. Government Certificates
- U.S. Saving Bonds - Series E, F, G, and H
- U.S. Treasury Bills and Notes

Obligations issued by the following U.S. Agencies are exempt:

- Banks for Cooperatives
- Central Banks for Cooperatives
- Commodity Credit Corp.
- Consolidated Bonds
- Consolidated Discount Notes
- Consolidated System Bond, Series L
- Consolidated Systemwide
- Discount Notes
- District of Columbia
- Farm Credit Banks
- Farmers Home Corp.
- Federal Deposit Insurance Corp.
- Federal Farm Credit Bank
- Federal Farm Loan Corp.
- Federal Farm Mortgage Corp.
- Federal Financing Banks
- Federal Home Loan Banks
- Federal Housing Administration (General Insurance Fund Debentures)
- Federal Intermediate Credit Banks
- Federal Intermediate Credit Corp.
- Federal Land Banks
- Federal Land Banks Association
- Federal Savings and Loan Insurance Corporation
- Home Owner's Loan Corp.
- Joint Stock Land Banks
- Maritime Administration
- Production Credit Association
- Small Business Administration
- Tennessee Valley Authority (bonds only)
- U.S. Housing Authority
- U.S. Maritime Commission
- U.S. Possessions (obligations Puerto Rico, Virgin Islands, etc.)
- U.S. Postal Service (bonds)

The following debentures issued under the General Insurance Fund are exempt:

- Interest form Armed Services Housing Mortgage Debentures
- Interest from debentures issued under War Housing Insurance Law
- Interest from debentures to acquire rental housing projects

The following General Services Administration Public Building Trust Participation Certificates are exempt:

1st series A through E
2nd series F
3rd series G
4th series H and I

The Guam Obligations issued by Government of Guam are exempt.

Income from exempt U.S. Obligations received by the taxpayer through Money Market Funds, Money Market Certificates, Mutual Funds, Trusts, etc., generally qualifies for a subtraction.

Treasury Bill Futures are not U.S. obligations.

The following U.S. Obligations are taxable:

Building and Loan Associations
Credit Union Share Accounts
District of Columbia Armory Board
Export/Import Bank of Washington, D.C.
Federal Home Loan Mortgage Corporation (Freddie Mac) mortgages and other securities
Federal Housing Administration (debentures, notes, and participation certificates)
Federal National Mortgage Association (Fannie Mae) participation and other instruments
Federal Savings and Loan Associations
Government National Mortgage Association (Ginnie Mae) (debentures, notes, and participation certificates)
International Bank for Reconstruction and Development (World Bank)
Panama Canal Bonds
Participation Certificates issued by the Federal National Mortgage Association
Philippine Bonds
U.S. Department of Agriculture Farmers Home Administration Insured Notes
U.S. Government Insured Merchant Marine Bonds

Other examples of taxable interest from federal obligations:

Debentures issued to mortgages or mortgages foreclosed under the provisions of the National Housing Act
Farmer's Home Administration
Federal Home Loan time deposits
FSLIC secondary reserve prepayments
Government National Mortgage Association participation certificates and on Federal Home Loan Mortgage Corporation participation certificates in mortgage pools
Interest-bearing certificates issued in lieu of tax exempt securities, such income losing its identity when merged with other funds
Participating loans in the Federal Reserve System for member banks (Federal Funds)
Promissory notes of a federal instrumentality
Refunds of federal income tax
U.S. Postal Service certificates and savings deposits

INCOME ALLOCATION CHART

The following chart may be used to determine which types or sources of income are taxable to Michigan. This chart is not inclusive of all types of income, but reflects the most common.

Type of Income	**Allocate To**
Salaries, wages, tips, director fees, commissions, etc.	State where earned and state of residence. A Michigan resident may be entitled to a credit if income is also taxed by another state. **Exception:** Residents of reciprocal states are not taxed by Michigan on this type of income and vice versa.
Deferred compensation:	
1. Principal portion	State of residence when received.
2. Interest portion	State of residence when received.
Dividends and interest	State of residence. **Exception:** If earned by a partnership or S corporation, allocate or apportion to the state of the business activity if business income.
Business income or loss (Schedule C)	State where business activity takes place. Business income attributable to Michigan and one or more states must be apportioned. (Form MI-1040H.)
Partnerships, S corporations, or other flow-through entities income or loss:	
1. Ordinary business income or (Schedule E)	State where business activity takes place.
2. All other business income or	State where business activity takes place.
3. Nonbusiness income or loss	State of residence
Capital gain or loss (Schedule D or 4797):	
1. Intangible personal property such as stocks, bonds, commodities, futures, etc.	State of residence unless business income.
2. Section 1231	State where the property is located unless business income.
3. Real property	State where real property is located unless business income.

Type of Income	**Allocate To**
Pension, retirement, annuity, qualifying IRA distributions, and Social Security benefits	State of residence when received.
Rent and royalty income or loss (Schedule E):	
1. Tangible and intangible personal property	Michigan if used in this State, or if a resident and not taxable in the state where property is used.
2. Real property (includes royalties for minerals which came from real property such as oil and coal)	State where real property is located unless business income.
Estate or trust income or loss	Look to type and source of income and apply guidelines in this chart.
Farm income or loss (Schedule F)	State where farm is located.
Unemployment compensation	State of residence.
Alimony and state and local refunds	State of residence when received.
Gambling winnings from casinos and licensed horse tracks located in Michigan, and winnings from raffle, bingo, and prizes won in Michigan.	State where earned and state of residence. (Michigan Lottery won by nonresidents is taxable in Michigan.)

INCOME AND DEDUCTIBLE ITEMS, SUMMARY CHART

Notes: N = Not included
Y = Included
AGI = Adjusted Gross Income
THR = Total Household Resources

Income Items	**AGI**	**Michigan Taxable Income**	**THR**
Alimony received	Y	Y	Y
Awards, prizes (in excess of $300 for THR)	Y	Y	Y
Bingo:			
First $300	Y	Y	N
In excess of $300	Y	Y	Y
Bonuses	Y	Y	Y
Business (Schedule C) income or loss:			
In Michigan (except income and related expenses from oil and gas royalties and metallic minerals extraction subject to severance tax)	Y	Y	Y*
From another state and/or income and related expenses from oil and gas royalties and metallic minerals extraction subject to severance tax	Y	N	Y*
Capital gains:			
100% taxable	Y	Y	Y
Note: Senior Citizen born before 1946 may subtract interest, dividends, capital gains included in AGI. The maximum deduction must be reduced by the pension subtraction. Allowable deduction is the smaller of the calculation or actual total interest, dividends, and capital gains. This subtraction is adjusted by the percentage increase in the U.S. Consumer Price Index for the preceding calendar year. See MI-1040 instruction booklet for the year being reviewed.			
Gains on sale of principal residence	N	N	Y
Casualty loss reimbursement in excess of loss of property	Y	Y	Y
Child support payments:			
Payer	Y	Y	Y
Receiver	N	N	Y
Chore service payments:			
Provider of service	Y	Y	Y
Receiver of service	N	N	N

* All business income and loss must be netted before considering the effect on THR. If the netting results in a loss, this cannot be used to reduce THR. **Exception:** Farmland Preservation Tax Credit continues to be based on household income and not THR. Business losses and NOL deductions are allowed in household income. (See MI-1040CR-5 instructions.)

Income Items	AGI	Michigan Taxable Income	THR
Commissions	Y	Y	Y
Compensation for personal services rendered	Y	Y	Y
Damages for personal injury or sickness	N	N	Y
Deferred compensation	Y	Y	Y
Director's fees	Y	Y	Y
Disability income (limited)	Y	Y	Y
Policeman and Fireman On-Duty "J-Days"	N	N	Y
Dividends received (see **Note** under "Capital gains")	Y	Y	Y
Educational expenses paid by employer	N	N	Y
Employee business expenses: cash allowance or reimbursement	Y	Y	Y
Energy assistance grants or tax credit	N	N	N
Estates or trusts income or loss	Y	Y	Y*
FIP benefits (see "Public assistance…")			
Farm income or loss from :			
Michigan	Y	Y	Y*
Another state	Y	N	Y*
Farm portion of homestead property tax credit	Y	Y	N
Farmland preservation tax credits	Y	Y	Y
Foreign earned income exclusion	N	N	Y
Foster care payments	N	N	Y
Gambling:			
Winnings (in excess of $300 for THR)	Y	Y	Y
Losses:			
Professional gamblers (Net losses)	Y	Y	N*
All others	N	N	N
Gift - cash:			
First $300	N	N	N
Excess over $300	N	N	Y

* All business income and loss must be netted before considering the effect on THR. If the netting results in a loss, this cannot be used to reduce THR. **Exception:** Farmland Preservation Tax Credit continues to be based on household income and not THR Business losses and NOL deductions are allowed in household income. (See MI-1040CR-5 instructions).