2018 Michigan Taxpayer Assistance Manual

SUPPLEMENT

NEW FOR 2018

Homestead Property Tax Credit

For 2018, the homestead property tax credit has been expanded. The percentage of gross rent paid to calculate the credit was increased from 20 percent to 23 percent, the phase out limit for total household resources was raised from $50,000 to $60,000, the percentage of total household resources was lowered from 3.5 percent to 3.2 percent, and the maximum credit available was increased from $1,200 to $1,500. See *Homestead Property Tax Credit Claim* (Form MI-1040CR) for details.

Revenue Administrative Bulletins (RAB) and Directives
RAB 2018-8 Eliminating the Income and Expenses of Producing Oil and Gas

Explains who must eliminate oil and gas income and expenses and what income and expenses must be eliminated, calculation of the Michigan Net Operating Loss with income and expenses from oil and gas production, and calculation of total household resources using oil and gas income and expenses. Describes records that must be maintained and reported when eliminating oil and gas income and expenses on an income tax return. Provides a calculation example of a Michigan income tax return with oil and gas income and expenses.

Tax Cuts and Jobs Act of 2017

The federal Tax Cuts and Jobs Act amended several section of the Internal Revenue Code (IRC) of 1986. Visit the Treasury Web site for the most current forms and information about Michigan taxes.

Net Operating Loss

In response to the federal tax changes that affect Michigan NOLs and NOL deductions, the Michigan Department of Treasury (Treasury) has updated the net operating loss form. The *Application for Net Operating Loss Refund* (MI-1045) has been revised and is now the *Net Operating Loss* (MI-1045).

A new form, the *Excess Business Loss* (Form 5595), has been created to calculate the Michigan portion of a taxpayer's allowable and excess business loss.

SUMMARY OF CHANGES FOR 2018

Tax Rate	4.25%
Personal Exemption	$4,050
Special Exemption	$2,700
Qualified Disabled Veteran Deduction	$400
Pension Deduction	
Single Filer	
Born before 1946: private pension limit	$51,570
Born in 1946 through 1951: Standard deduction against all income	$20,000
Born in 1952	$20,000
Born after 1952, pension not deductible*	$0
Jointly Filed	
Born before 1946: private pension limit	$103,140
Born in 1946 through 1951: Standard deduction against all income	$40,000
Born in 1952	$40,000
Born after 1952, pension not deductible*	$0
Senior Interest, Dividend, and Capital Gains	
Single Filer (not available for senior born after 1945)	$11,495
Jointly Filed (not available for senior born after 1945)	$22,991

*Exceptions (see Pension and Retirement Benefits):

- Taxpayers who have reached age 62 and received benefits from Social Security exempt employment may be eligible for a pension deduction, or
- Taxpayers who were born after 1952, were retired as of January 1, 2013, and received SSA exempt retirement pension.

SUMMARY OF CHANGES FOR PRIOR YEARS

	2014	2015	2016	2017
Tax Rate	4.25%	4.25%	4.25%	4.25%
Personal Exemption	$4,000	$4,000	$4,000	$4,000
Special Exemption	$2,500	$2,600	$2,600	$2,600
Qualified Disabled Veteran Deduction	$400	$400	$400	$400
Pension Deduction				
Single Filer:				
Born before 1946: private pension limit	$49,027	$49,811	$49,861	$50,509
Born after 1945 and age 67 or older:				
Standard deduction against all income	$20,000	$20,000	$20,000	$20,000
Born 1946 through 1952 and age 66 or less	$20,000	$20,000	$20,000	$20,000
Born after 1952, pension not deductible	0	0	0	0

	2014	2015	2016	2017
Joint Filers:				
Born before 1946: private pension limit	$98,054	$99,623	$99,723	$101,019
Born after 1945 and age 67 or older:				
Standard deduction against all income	$40,000	$40,000	$40,000	$40,000
Born 1947 through 1952 and age 66 or less	$40,000	$40,000	$40,000	$40,000
Born after 1952, pension not deductible	0	0	0	0
Senior Interest, Dividend, and Capital Gains				
Single Filer (not available for senior born after 1945)	$10,929	$11,104	$11,115	$11,259
Joint Filers (not available for senior born after 1945)	$21,857	$22,207	$22,229	$22,518

Michigan Home Heating Credit, MI-1040CR-7

TABLE A: 2018 Home Heating Credit Standard Allowance		
Exemptions	Standard Allowance	Income Ceiling
0 or 1	$468	$13,357
2	$635	$18,129
3	$801	$22,871
4	$967	$27,614
5	$1,134	$32,386
6	$1,300	$37,129
	+ $166 for each exemption over 6	+ $4,743 for each exemption over 6

TABLE B: 2018 Exemption and Maximum Income for the Alternate Credit Computation	
Exemptions	Maximum Income
0 or 1	$14,111
2	$18,989
3	$23,872
4 or more	$24,882

Maximum heating costs: $2,741

PROBLEM 1:
HOMEOWNER

Prepare an MI-1040CR for John and Joanna Powers, ages 66 and 68 respectively. They have no dependents nor do they qualify for any special exemptions. Their Social Security numbers (SSNs) are 111-11-1111 and 222-22-2222, respectively. They owned and lived in their house at 312 W. Outer Drive, Detroit, MI 48106, for the entire year. The property tax bills on their homestead are:

SUMMER 2018		**WINTER 2018**	
Summer Taxes	$475	Winter Taxes	$950
Special Assessment:			
Sidewalk	+ 175		
Total	650	Total	950
Administrative Fee	+ 5	Administrative Fee	+ 9
Total	655	Total	$959
State Equalized Value	55,000		
Taxable Value	$31,000		

Their annual income is:

SOCIAL SECURITY		**PENSION**	
Paid by check or direct deposit	$5,850	Gross Distributions	$11,700
Medicare premiums deducted	600	Original contributions	2,300
Total Benefits for 2018	$6,450	Taxable Benefits	$9,400

For this example, assume the Social Security is taxable on the federal return.
They paid $450 in health insurance premiums to Aplac.

Assume the same facts as shown above and compute the homestead property tax credit for the Powers for each of the following fact changes:

A. Both John and Joanna are age 64. The Social Security payments received are due to Joanna being considered totally and permanently disabled.

B. The Powers' taxable benefits from their pension now equals $18,100.

C. Joanna passed away two years ago at age 66. John is currently 64, unremarried, only received Social Security payments, and **did not** pay for health insurance to Aplac.

D. John and Joanna moved into their son's home on July 1, 2018 and sold their home on September 1, 2018. The son would not accept any rent from them for the remainder of the year.

PROBLEM 2:
RENTER

Susan Storm is age 49 and single. Susan has three dependents and does not qualify for any special exemptions. Her SSN is 999-99-9999. Her only income was from wages of $17,850. Susan paid no health insurance premiums, as health insurance is provided by her employer. She rented an apartment at 360 W. 18th Street, Holland, MI 49422 and paid $750 per month for the entire year. Her landlord is Bill Lux at 505 Main, Zeeland, MI 49424. Prepare her MI-1040CR.

Assume the same facts as shown above and compute the Homestead Property tax credit for Susan for each of the following fact changes:

A. Susan rented an apartment at Holland City Towers for $800 per month. The apartment building pays a service fee to the Holland City Housing Commission in lieu of ad valorem property taxes.

B. Susan lived in a mobile home park and paid lot rent of $840 per month, which included $3 per month specific tax. Her wages have also increased to $52,250 for the year.

C. Susan lived six months in a complex that pays ad valorem property taxes and she paid $800 rent per month. She also lived six months in a service fee complex where she paid $725 per month. Her wages are $17,850.

PROBLEM 3:
SENIOR CITIZEN WITH LARGE RENT

Marjorie Stone is age 82. Her SSN is 333-33-3333. She received a $6,750 pension from Toys-R-4-Everyone and $800 in interest income. Her annual Social Security statement revealed the following:

Paid by check or direct deposit	$ 6,700
Medicare premiums deducted	500
Total Benefits for 2018	$ 7,200

Marjorie paid Blue Cross Insurance premiums of $275 per quarter. She rented an apartment in the Biltmore Towers at 216 Biltmore S.E., Grand Rapids, MI 47460, paying $625 per month for the entire year. Assume the Social Security is taxable on the federal return. Prepare the MI-1040CR for Marjorie.

PROBLEM 4:
VETERAN USING MI-1040CR-2

John Hogan is 59 years old and not married. His SSN is 444-44-4444. John received a disability pension from the Army of $7,900 for the year. John's percent of disability is 25 percent. John also received wages of $50,000 for the year.

The Property Tax Bill on his homestead at 54 Rutgers, Kalamazoo, MI 49001, contains the following information:

Property Taxes	$ 1,100
Taxable Value	$ 21,750

Solution Note: As a General Claimant on the MI-1040CR, he would receive no Property Tax Credit (see computation below).

Property Taxes	$ 1,100
THR ($57,900) x .032	- 1,853
	$0

Therefore, compute the credit using the *MI-1040CR-2*.

A. Assume the same facts as in the example above for John Hogan, except that he rented his home paying $600 per month for the entire year. Also, assume that the combined non-homestead millage rate for Kalamazoo city and county is 59.5 mills.

Solution Note: To prepare a credit for a renter using the CR-2 method, the combined millage rate for the city and county must be obtained by the taxpayer or tax preparer. This figure may be obtained from the Treasurer/assessor's office or by calculating it from tax bills of other taxpayers.

NOTE: Beginning in 2013, disabled veterans who own their home, filed a *State Tax Commission Affidavit for Disabled Veterans Exemption*, and received a property tax exemption are not eligible for a homestead property tax credit on the exempt property.

PROBLEM 5:
FAMILY INDEPENDENCE PAYMENT (FIP) / MICHIGAN DEPARTMENT OF HEALTH AND HUMAN SERVICES (MDHHS) RECIPIENT

Joan Street is 32 years old and her minor child lives with her. She had the following household income:

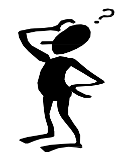
Wages	$3,200
FIP/MDHHS	6,800
Total Household Resources	$10,000

Per the 2018 Friend of the Court statement, the father of Joan's child paid $2,000 of child support which is included in the $6,800 reported on the FIP/MDHHS statement. The property taxes on Joan Street's home in 2018 are $890 and the taxable value is $23,350. Joan's SSN is 666-66-6666 and her address is 1452 Dawson, Port Huron, MI 48322. Prepare Joan's MI-1040CR.

PROBLEM 6:
HOME HEATING CREDIT

Arthur and Millie Watson are ages 83 and 81, respectively. Arthur is deaf (cannot communicate through the spoken word) and Millie is blind (vision of 20/200 or less with corrective lenses in the better eye). They have no children or other dependents.

Their income is as follows:



- Social Security after the Medicare deduction is $680 per month.
- Pension from Ajax Manufacturing is $5,750 for the year.

The present heating statements from Consumers Energy for the 12-consecutive-month period of November 1, 2017 through October 31, 2018, is $1,970. They own their home and heat it with gas. Prepare a Home Heating Credit for the Watsons.

Their SSNs are 888-88-8888 and 777-77-7777, and they reside in their home at 3607 Weaver, Royal Oak, MI 48237.

A. Compute the heating credit for the Watson's if they moved on January 15, 2018 to 660 W. Foster, Ferndale, MI 48221, where heat is now included in their rent.

PROBLEM 7:
MICHIGAN INCOME TAX RETURN WITH TIERED PENSION EXAMPLES

Donald and Sandra Earle are ages 73 and 65 respectively. Their SSNs are 000-00-0000 and 112-12-1212 and they reside at 200 River, Saginaw, MI 48000. They furnish 75 percent of the support for Donald's mother who has very little income of her own.

Their income for the year is from the following:

Donald's Wages	$ 25,500
City of Highland Park Pension (not SSA exempt)	$ 12,850
Bank Interest	750

2018 W-2 Information	Gross Wages	Fed W/H	State W/H
55-2222222 Barker Products	$25,500	$775	$625

In addition, they want to donate $10 to the Military Family Relief Fund and $15 to the United Way Fund.

Prepare a Michigan Income Tax Return based on the above information.

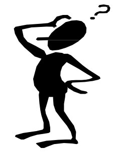
Assume the same facts as shown above and complete a Michigan Income Tax Return for each of the following fact changes:

A. Donald is 67 in 2018, they have no dependents.

B. Donald and Sandra were both born in 1952. Sandra is blind and they have no dependents.

C. Donald is single, 66 and deaf. He received a $100 2017 city income tax refund which was included in his 2018 AGI, his pension is now $21,000, and he has no dependents.

D. Donald is single, born in 1953, and fully supports his mother. He did not make voluntary contributions on his Michigan return.



PROBLEM 8:
MICHIGAN INCOME TAX RETURN WITH INTEREST, DIVIDEND, AND CAPITAL GAIN SUBTRACTION

George Burns is age 77 (born in 1941) and his SSN is 555-55-5555. He lives at 456 Fire Lane, Grand Rapids, MI 49505. His filing status is single.

His income for the year is the following:

Wages – Walmark (38-9999998)	$5,800
Interest from U.S. savings bonds	1,700
Bank interest	1,500
Dividend Income	8,500
Social Security (non-taxable)	2,700

Michigan Withholding	$ 260

George rents his homestead in Grand Rapids and pays $750 per month. His landlord is Gibson Management in Kalamazoo, MI 49001.

Prepare his 2018 Michigan income tax return.

Assume the same facts as shown above, with the exceptions listed in each scenario below, and complete a Michigan income tax return for each of the following fact changes:

A. George has a roommate, they are both contracted to pay rent. Rent for the house is $900 monthly. His dividend income increased to $10,120.

B. George is age 66 (born in 1951) and pays $350 a month for rent.

PROBLEM 9:
MICHIGAN INCOME TAX RETURN WITH PART-YEAR RESIDENTS

Norman and Patty Duke moved to Michigan from Pennsylvania on June 1, 2018, and they reside at 41692 Brunswick Lane, Beverly Hills, MI 48112. They are ages 51 (born in 1967) and 44 (born in 1974) respectively, and their SSNs are 300-30-0300 and 299-29-2929. The Dukes have three children ages 9, 13, and 15. Their income for 2018 is as follows:

Norm:	Wages:	
	Ajax, Inc.	$90,000
	(Pennsylvania wages $65,000 earned while a PA resident)	
	(Michigan wages $25,000)	
	Michigan withholding	785
	Interest received ($175 in Michigan)	500
	Lottery winnings (MI)	$2,750
Patty:	Not employed	

The Dukes sold their home in Pennsylvania on September 30, 2018 for a gain of $5,000.
The gain is not included in AGI.
The taxable value of their Michigan home is $85,000 and the taxes levied were $2,500.
The school district code is 63010 and the number of days as Michigan residents is 214.

Prepare the Dukes Michigan income tax return.

PROBLEM 10:
MICHIGAN INCOME TAX RETURN
PENSION EXAMPLES

Thomas and Mary Garcia are married, filing joint. Thomas is 66 and Mary 63. Both retired in 2013. She retired under provisions of a 401K retirement plan, which includes only Mary's contributions mandated by the plan to elicit an employer match and the employer contributions. Thomas receives monthly payments from his State of Michigan pension. They did not itemize their federal tax return in 2018. Thomas also received nontaxable Social Security benefits.

They have the following income for the year:

401K Distributions	$14,050
State of MI Pension	$13,500
Social Security (non-taxable)	$2,900
Bank Interest	$650

First, prepare a Michigan Income Tax Return based on the above information.

Next, use the facts above but apply the situations listed below:

A. Assume Thomas' pension is from railroad retirement benefits.

B. Assume Thomas' pension is $10,000 from the Michigan National Guard and Mary's 401K distributions for the year are $41,500.

C. Mary's 401K plan did not mandate that any contributions be made. The plan also did not set a retirement age.

D. Thomas was born in 1945. He rolled over his public pension into an IRA account in 2010. No other deposits have been made to the account besides the rollover. Thomas received $13,500 in distributions for the year from his IRA.

PROBLEM 11:
MICHIGAN INCOME TAX RETURN
WITH PENSION FROM A GOVERMENTAL AGENCY NOT COVERED BY THE FEDERAL SOCIAL SECURITY ACT

Tilly Strong is a retired firefighter whose employment was not covered by the Social Security Act. She is 62 years of age and retired on June 13th, 2016. Her SSN is 111-00-1111. Tilly's filing status is single. Tilly receives a pension distribution from her employment as a firefighter in the amount of $25,000.

Her additional income for the year is as follows:

Bank Interest	$3,500
Dividend Income	9,800
Michigan Withholding	1,275

First, prepare a Michigan Income Tax Return based on the above information.

Next, use the facts above, but apply the situations listed below:

A. Tilly is married to Joe (his SSN is 000-11-1100). Tilly is the primary filer on their jointly filed MI-1040. Joe is 66, he receives a retirement distribution from Everyday Motors in the amount of $25,000.

B. Tilly retired from her job as a firefighter on December 9th, 2012. Her pension distribution for the tax year is $30,000. No Michigan withholding was taken out of Tilly's pension distribution.

2018 Taxpayer Assistance Manual Supplement Answers

PROBLEM 1

The portion of property taxes that the Powers are able to claim on their *MI-1040CR* is $1,439. Special assessments are excluded from this amount. The administration fee may be claimed as long as it is 1% or less of the tax bill for that period.

The Powers' Total Household Resources (THR) is $14,800. This includes $9,400 of their pension distribution, which is their gross distribution less their original contributions. Also included is $5,850 of their Social Security benefits, Medicare premiums paid through Social Security should not be included in this amount. The Powers are allowed to deduct the health insurance premium of $450 that they paid to Aplac on line 31 of the form.

The Powers are entitled to a $921 homestead property tax credit.

Calculation

Summer Tax	$480
Winter Tax	959
Total Property Taxes	$1,439

$14,800 THR x 3.2% = $474
$1,439 total property tax – $474 = $965 property tax credit

The Powers use Section A of the *MI-1040CR* to compute their credit. Since the Powers are age 65 or older, and their THR is below $21,000, they are not subject to the senior credit reduction rates and are entitled to 100% of the credit.

Problem 1A

Since the Powers are both under the age of 65 Joanna still qualifies to use the exemption for totally and permanently disabled. Their credit would now be calculated using Section B of the *MI-1040CR* and not subject to any reduction rates. Their credit amount would remain the same at $965.

Problem 1B

Since the Powers' taxable benefits from their pension increased, their THR is now $23,500 and led to a reduced rate due to the senior reduction. The amount of the credit they could claim decreased from 100% to 88% due to the senior credit reduction rates (*refer to page 55 of the Taxpayer Assistance Manual*). The Powers would now receive $605 for their property tax credit.

Problem 1C

Joanna was considered a "Senior Citizen" when she passed away. As long as John does not remarry, he is also considered a "Senior Citizen". A claimant or spouse who is 65 or older or is a paraplegic, quadriplegic, hemiplegic, blind, deaf or is totally and permanently disabled, and their THR is $6,000 or less is allowed to use a lower percentage when calculating the amount of property taxes that are not refundable (*refer to page 56 of the Taxpayer Assistance Manual)*. In this case, John's income is between $5,001 and $6,000; therefore, he would multiply his THR of $5,850 by 3% instead of 3.2%, which equals $176. Also, since his THR is below $21,000, he is entitled to 100% of the credit or the max of $1,500 and not subject to the senior credit reduction rate. This results in John receiving a credit of $1,263 on his *MI-1040CR.*

Problem 1D

The Powers were part-year homeowners; therefore, their property taxes must be prorated. Part 3 of the MI-1040CR must be completed to indicate what portion of property taxes the two are able to claim for the time they lived at their home. The date they moved in with their son, July 1st, should be used to calculate their portion of the property taxes eligible to be claimed. The September 1st date is not allowed since they did not occupy the home for two months prior to the sale date. They occupied their home for 181 days. THR is $14,800 after adjustments. The amount of taxes that are eligible to be claimed and entered on line 10 is $714. The Powers would receive a credit of $240.

Calculation:

181 days occupied / 365 = 49.6%
$1,439 property taxes x 49.6% = $714

PROBLEM 2

Susan paid rent for 12 months at the same apartment. Her wages were not enough to result in additional phase-out limits; as such, the credit she receives on her *MI-1040CR* is $899.

Calculation

$9000 annual rent x 23% = $2,070
$17,850 THR x 3.2% = $571
$2,070 property taxes included in rent – $571 = 1,499
$1,499 x 60% (general claimant) = $899 property tax credit

Problem 2A

Since Susan lived in service fee housing for 12 months she may claim 10% of her paid rent for property taxes. This is calculated in Part 5 of the *MI-1040CR*. The property taxes eligible to be claimed in this situation ($960) are entered on line 10 of the *MI-1040CR*; do not enter amounts on line 11 or 12 in this circumstance. This results in Susan receiving a credit of $233.

Rent: $800 per month x 12 mos. = $9,600
$9,600 x 10% = $960
$17,850 THR x 3.2% = $571
$960 – $571 = $389
$389 x 60% (general claimant) = $233 property tax credit

Problem 2B

Susan lived in a mobile home park for 12 months; as such, she pays a $3 per month specific property tax that is included in her lot rent. If Susan's lot had a shed and she was paying a property tax on that building she would also be able to claim any property taxes levied on the shed on her *MI-1040CR*.

For Part 4, line 52, column E, the $36 (12 months x $3) has been subtracted from the total rent and instead included on line 10 (property taxes on a shed would also be included here). Susan's rent is calculated in Part 4, line 52 at $10,044 (($840 lot rent x 12 = $10,080) – $36 property taxes) and included on line 11 of the *MI-1040CR*.

In addition, Susan's wages increased, subjecting her to the THR phase-out rates. In this case, Susan was only able to claim 80% of her credit, entered on line 43. This means that Susan would be receiving a $323 credit.

Mobile home specific tax = $3 x 12 months = $36 property taxes, line 10
Rent: $840 x 12 months = $10,080 – $36 taxes = $10,044 x 23% = 2,310
Total Rent & Tax: $36 tax + $2,310 rent = $2,346
THR: $52,250 x 3.2% = $1,672
$2,346 – 1,672 = $674

$674 x 60% (general claimant) = $404
$404 x 80% (phase-out) = $323 final property tax credit

Problem 2C

For 6 months Susan lived in a facility that pays ad valorem property taxes. This homestead is accounted for in Part 4 of the *MI-1040CR*. The total rent paid at this location is $4,800 ($800/month x 6 months). This amount should be entered on line 11.

For the remainder of the year (6 months) Susan lived in housing that pays service fees in lieu of ad valorem property tax. This homestead is accounted for in Part 5 of the *MI-1040CR*. The portion of the property taxes that Susan can claim for this facility is $435 (($725/month x 6 months) x 10%) and should be entered on line 10.

The total amount of property taxes Susan is eligible to claim on line 13 is $1,539. Susan would receive a credit of $581.

Calculation

Property Tax: $725 rent per month x 6 months = $4,350, line 55
$4,350 x 10% = $435 allowed (service fee housing), line 56 and line 10
Rent: $800 per month x 6 months = $4,800
$4,800 x 23% = $1,104 property tax in rent allowed
Total property tax in rent: $435 + 1,104 = $1,539 line 13
THR: $17,850 x 3.2% = $571
$1,539 – 571 = $968
$968 x 60% (general claimant) = $581 final property tax credit

PROBLEM 3

A claimant may be eligible for the Senior Citizen – Alternate Method for Renter calculation if they are over 65 and rent their home. Worksheet 4 in the *MI-1040* instruction booklet should be completed to determine if this method or the regular method for calculating the Homestead Property Tax credit is more beneficial to the claimant(s).

Marjorie's credit computes as follows:

Regular Method			**Alternate Method**		
Rent/year		$7,500	Rent/year		$7,500
		X 0.23			
		$1,725			
THR	$13,150		THR	$13,150	
X 3.2%	X 0.032		X 40%	X 0.4	
Amount Not Refundable		- 421	Amount Not Refundable		- 5,260
Regular Method Credit		**$ 1,304**	**Alternate Method Credit**		**$ 2,240***

THR Calculation:		
	$ 800	Interest
	6,750	Pension
	6,700	Social Security
	(1,100)	Health insurance premium ($275 x 4 quarters)
	$13,150	THR

*Using the Alternate Method (see Worksheet 4 in the instruction booklet) allows for a $1,500 maximum credit, this should be entered on line 44.

(Another example of this calculation can be found on page 74 of the Taxpayer Assistance Manual.)

PROBLEM 4

John is allowed a $53 credit after phase-out reductions are applied. Keep in mind that the percent of disability (determined by the Veteran Administration) is needed in order to determine the Taxable Value Allowance (TVA) found in Table 2 in the *MI-1040CR-2* instruction booklet. After looking at the table and taking into account John's percent of disability, it is found that he will have a $3,500 taxable value allowance. Also, since John's THR is $57,900 his allowed credit amount is reduced to 30%.

Calculation

$3,500 TVA (from Table 2) / $21,750 TV = 16% refundable
$1,100 property taxes x 16% = $176
$176 x 30% phase-out percentage = $53 final property tax credit

Note: If John received a Disabled Veterans Exemption on his home, the exempt property would not be eligible to claim when computing the homestead property tax credit.

Problem 4A

Veterans who rent must complete Part 2 of the *MI-1040CR-2* to compute their taxable value. John's taxable value allowance (TVA) remained the same, but his taxable value of his homestead changed to $27,832 ($7,200 annual rent x 23% = $1,656 / .0595). His percent of tax relief is also reduced to 12.58% ($3,500 TVA/ $27,832). John is allowed a $62 credit after phase-out reductions are applied ($1,656 x 12.58% = $208 x 30% = $62).

(Another example of this calculation can be found on page 75 of the Taxpayer Assistance Manual.)

PROBLEM 5

Joan received FIP/MDHHS benefits in 2018. She must prorate her credit to reflect the ratio of income from other sources to total household resources. Use the *MI-1040CR Worksheet 3* in the instruction booklet when computing the proration. Joan would receive a total credit of $178 for 2018.

Calculation

Any child support included with FIP/MDHHS income should be separately reported as child support on *MI-1040CR*, line 22.

$6,800 FIP/MDHHS statement – $2,000 child support = $4,800 FIP/MDHHS income

$10,000 x 3.2% = $320
$890 property tax - $320 = $570
$570 x 60% (general claimant) = $342

$10,000 THR – $4,800 FIP/MDHHS = $5,200 non FIP/MDHHS income
$5,200 / $10,000 THR = 52%
$342 x 52% FIP/MDHHS proration = $178 property tax credit

PROBLEM 6

Arthur and Millie's THR is $13,910. They are allowed four exemptions on their *MI-1040CR-7*, two are personal exemptions and two are for Arthur's deafness and Millie's blindness. With four exemptions, the Watsons' standard allowance from Table A, page 19 is $967 and should be entered on line 35 of the *MI-1040CR-7*. It is important to take note of the income ceilings for each Standard allowance and Alternative credit when preparing the *MI-1040CR-7*. The Watsons' THR does not exceed the income ceiling for either the Standard credit ($27,071) or the Alternative credit method ($24,918). Since their income is below the income ceiling, their claim is for twelve months, and their heat is not included in their rent, they qualify to use either method. Both methods should be computed when claimant(s) qualify to use either method and the larger amount should be claimed for the credit. In this case, the Watsons would receive a larger credit by using the standard credit amount (line 37), which computes to $480, instead of the alternative credit amount (line 42), which computes to $308. The standard credit amount of $480 will give Arthur and Millie a larger credit. Please note, the credit amount for both methods is further reduced by the percentage of federal home heating assistance funds available for this year. Therefore, the credit is subject to further proration.

Problem 6A

In this scenario, Arthur and Millie moved into a new homestead where their heating costs are included in their rent. Box 7 should be checked to indicate that their heating costs are included in rent. Since the Watsons' heat is included in their rent, they are no longer eligible to use the Alternate credit method when calculating their credit on the *MI-1040CR-7*. The Watsons' standard allowance and THR remained the same, but now they must complete line 38 and reduce their computed standard credit by 50 percent. The Watsons' standard credit amount computes to $240. Please note, this amount is further reduced by the percentage of the federal home heating assistance funds available for this year. Therefore, the credit is subject to further proration.

PROBLEM 7

The couple's AGI is $39,100, which includes wages ($25,500), pension ($12,850), and bank interest ($750). The Earles should claim three exemptions. Since Donald and Sandra provide more than 50% of support for Donald's mother, she is considered their dependent.

The Earles do not have any additions from *Schedule 1*, but they do have subtractions totaling $13,600, which are entered on the *MI-1040,* line 13. The subtractions are determined as follows:

(1) Since one or more of the Earles were born before 1946, the *Michigan Pension Schedule Form 4884* should be completed. The questions in "*Which Section of Form 4884 Should I Complete?*" in the *MI-1040* instruction booklet (page 17) are used to determine which section on page 2 of *Form 4884* should be completed. It was determined that the Earles should complete section A of *Form 4884*. The $12,850 amount from Section A, line 15 is entered on *Schedule 1*, line 25

(2) Due to one of the Earles being born before 1946, they are eligible to take a $750 Dividend/Interest/Capital gains deduction. This is entered on *Schedule 1*, line 26.

The Earles had $625 state withholding from their wages from Barker Products; therefore, *Schedule W* should be completed to demonstrate the amount of each withholding. The amount from *Schedule W* should be entered on the *MI-1040* line 29.

The Earles have also chosen to make monetary contributions to a few charitable programs. Therefore, a *Michigan Voluntary Contributions Schedule Form 4642* should be completed with the $25 amount entered on the *MI-1040*, line 22.

The Earles are entitled to a $33 refund in 2018.

Calculation

$39,100 AGI – $13,600 Schedule 1 subtraction = $25,500 income subject to tax
$25,500 – $12,150 exemption allowance = $13,350 taxable income
$13,350 x 4.25% = $567 tax
$567 tax + $25 voluntary contributions = $592 total tax liability
$592 tax liability – $625 Michigan withholding = $33 refund

Problem 7A

The Earles have no dependents so they are allowed two exemptions. Donald was born in 1951; he is grouped into Tier 2 for retirement benefits. When Tier 2 filers reach the age of 67, they become eligible for the Michigan Standard Deduction. The Earles can take a $40,000 standard deduction, which can be used against **all** income.

Unlike in the previous scenario when we calculated an amount on *Form 4884*, the Earles should now complete *Schedule 1, line 24,* and should not complete *Form 4884*. In 2018, the Michigan Standard Deduction is $20,000 for single filers and $40,000 for married filing jointly (limited by any subtraction for military compensation and pension benefits and railroad or Michigan National Guard pension benefits). The Earles are able to deduct all of their income ($39,100); leaving the Earles with $25 tax liability from their voluntary contributions. The Earles are due a refund of $600 for 2018.

Problem 7B

Sandra and Donald Earle are allowed two standard exemptions and one special exemption for an exemption allowance of $10,800. Their AGI remains the same at $39,100. Both the Earles were born in 1952 which means that that they are in Tier 2. Again, the questionnaire on page 17 of the *MI-1040* instruction booklet should be completed. It is determined that they should complete Section C. The Earles are allowed to report $12,850, the deductible amount of their pension, on *Schedule 1,* line 25.

The Earles' tax liability exceeds their refundable credits and payments; therefore, they owe $57 to the State of Michigan ($657 tax + $25 voluntary contributions - $625 withholding).

Problem 7C

In this scenario, the taxpayer is single and has a special exemption. He is eligible for a $6,750 exemption allowance. AGI is $47,350 (due to the inclusion of the taxable city income tax refund and the increase in pension). The city income tax refund was included in federal AGI and is allowed as a subtraction on *Schedule 1*, line 16.

The taxpayer was born in 1952, which puts him in Tier 2. A single taxpayer in Tier 2 is allowed up to a $20,000 pension deduction. The taxpayer received $21,000 for his pension in 2018; therefore, $1,000 of that pension is taxable. Again, the questionnaire on page 17 of the *MI-1040* should be completed. After completion, it is determined that Section C of *Form 4884* should be filled out. The amount of $20,000 from *Form 4884* should be entered on the *Schedule 1,* line 25. The $20,100 *Schedule 1* total is carried to the *MI-1040* line 13.

The taxpayer had the same withholdings and volunteer contributions as the previous scenarios. The taxpayer had a higher pension distribution and $1,000 of the $21,000 distributed is taxable by the State of Michigan. This increased the taxpayer's total tax liability to $896 ($871 tax + $25 voluntary contributions). There were no taxes withheld from the pension throughout the year so the withholdings remain the same at $625 for the wages received. This means that the taxpayer now owes $271 on their *MI-1040*.

Problem 7D

Donald's AGI is $39,100 and he claims $8,100 for two exemption allowances. He is born in 1953, which puts him in Tier 3 in regard to his pension. Those in Tier 3 are generally not allowed a pension deduction, meaning their entire pension is taxable. *Form 4884* states that anyone born after December 31, 1952 is not entitled to a pension subtraction and should not complete *Form 4884*.**† Donald has no items to subtract on the *Schedule 1* and therefore, the schedule is not needed.

Donald's tax liability is $1,318, resulting in a tax due of $693. Since the taxpayer is not entitled to a pension subtraction, he should have had income tax withheld from his pension benefits or he should have remitted estimated tax payments during the year. Anyone who can reasonably expect their annual tax amount to exceed their withholdings and credits by more than $500 should make estimated tax payments. Failure to do so may result in additional interest and penalties. In this case, Donald should have made estimated tax payments to the Michigan Department of Treasury since his tax due exceeds $500.

** If Donald's pension benefits were from employment with a government agency that was not covered under the Social Security Act, he would be eligible to deduct up to $15,000 of his pension benefits. He would complete Section D of *Form 4884.*

Individuals in Tier 3 who have reached age 62 and receive pension benefits from employment with governmental agencies not covered by the Social Security Act, may be eligible for a retirement and pension deduction up to $15,000. If both spouses on a joint return have retirement benefits from an "uncovered" governmental agency, the maximum deduction is $30,000.

† If Donald was retired as of January 1, 2013, his pension benefits were from employment with a government agency that was not covered under the Social Security Act, and he was born after 1945, he would be allowed to deduct up to $35,000 of pension benefits. He would complete Section C of *Form 4884* and check the box on line 6 of *Form 4884*.

Individuals that meet the following requirements: 1) Retired as of January 1, 2013, 2) Has pension benefits from employment with a government agency that was not covered under the Social Security Act, and 3) Were born after 1945, are considered to be Tier 2 retirees and may be eligible for a retirement and pension deduction up to $35,000, if filing as single. If filing as joint and only one spouse is receiving retirement benefits from employment with an "uncovered" government agency, the maximum deduction is $55,000. If both spouses on a joint return have retirement benefits from an "uncovered" governmental agency, the maximum deduction is $70,000.

PROBLEM 8

George's AGI is $17,500; which includes wages, interest from U.S. saving bonds, bank interest, and dividend income. George is allowed to subtract the interest from U.S. savings bonds on the *Schedule 1,* line 10. Since George was born in 1941 (Tier 1), he is allowed a subtraction for his dividend, interest, and capital gain income on *Schedule 1,* line 26. In 2018, the maximum deduction for a single person is $11,495; therefore, George is allowed to subtract all of his bank interest and dividend income for a total of $10,000 on *Schedule 1,* line 26.

George had wages and income tax was withheld from his wages. The amount withheld should be entered on the *Schedule W*; the total of the *Schedule W* should be carried to the *MI-1040*, line 29.

A Homestead Property Tax Credit should be completed for George. He should include his wages, all interest and dividend income, and his nontaxable social security income in his Total Household Resources (THR), totaling $20,200. Part 1, Section A of the form, should be completed since George is a senior claimant. Part 4 of the form should be used to report George's rent. His THR is below $21,000 and is not subject to the senior credit reduction. George would receive the full amount of his credit, which computes to $1,424. This amount is reported on *MI-1040*, line 25.

On his *MI-1040*, George has a total tax liability of $74, a property tax credit of $1,424, and Michigan tax withholdings of $260. George is eligible for a refund of $1,610.

Calculation

$17,500 AGI - $11,700 Schedule 1 subtraction - $4,050 exemption allowance = $1,750 taxable income.
$1,750 x 4.25% = $74 tax
$74 tax – $1,424 property tax credit – $260 withholding = $1,610 refund

Problem 8A

In this problem, George has a roommate who is also contracted to pay rent, rent for the house was increased to $900 monthly, and his dividend income increased to $10,120.

George's AGI is $19,120. On the *Schedule 1*, George would still subtract the $1,700 savings bond income on line 10 and he would have a deduction on line 26 for dividend, interest, and capital gain income. George's bank interest, and dividend income is $11,620. George is a single claimant and may only deduct a maximum of $11,495 for the senior dividend, interest, and capital gain deduction; therefore, $125 ($11,620 - $11,495) of the income is actually taxable. After totaling *Schedule 1*, $13,195 ($11,495 + $1,700) is carried to the *MI-1040*, line 13.

Again, George reported $260 in withholdings on *Schedule W*, which is carried to the *MI-1040*, line 29.

For the Homestead Property Tax Credit, George now has a roommate who is also contracted to pay rent. George may claim $450 a month or $5,400 for the year, not the entire $900 a month. With the increase in dividend income, George's THR is increased to $21,820. George is now subject to the senior credit reduction rates. George may only claim 96% of the credit (entered on line 37). George's property tax credit computes to $522 and is carried to the *MI-1040*, line 25.

George has a total tax liability of $80, due to the dividend income that could not be deducted, a property tax credit of $522, and Michigan tax withheld of $260. George is entitled to a refund of $702.

Problem 8B

In this scenario, George's age has changed to 66 and his rent has been reduced. George's AGI is $17,500. Due to George's age, he is no longer allowed to take the deduction for dividend, interest, and capital gains income for those who are born before 1946. This means that his $10,000 of bank interest and dividend income is completely taxable, but he is still able to deduct his interest from savings bonds on *Schedule 1,* line 10. The amount of $1,700 should be carried from the *Schedule 1* to the *MI-1040*, line 13.

George reported $260 in withholdings on *Schedule W*, which should be carried to the *MI-1040*, line 29.

George's rent is now $350 a month for a total of $4,200 for the year. His THR is $20,200 so he is not subject to the senior credit reduction rates. George is entitled to a $320 credit, which should be carried to the *MI-1040*, line 25.

Since none of George's bank interest or dividend income was deductible he has an increased tax liability of $499. His property tax credit is $320 and his withholding remained the same at $260. George has a refund of $81.

PROBLEM 9

The Dukes were part-year residents; they have five standard exemptions for a total of $20,250 (which will be prorated later). Their AGI is $93,250. Included in their AGI is wages ($90,000), interest income ($500), and lottery winnings ($2,750).

Their AGI must be divided into an amount that was earned and allocated to Michigan and an amount that was earned and allocated to Pennsylvania. The *Schedule NR* allows the taxpayer to appropriately designate income attributable to Michigan from income attributable to Pennsylvania. After all income has been considered, Michigan income totals $27,925 and Pennsylvania income totals $65,325. The income attributable to Pennsylvania must be carried to *Schedule 1,* line 13 so that a subtraction can be made from AGI; from *Schedule 1* the amount is carried to the *MI-1040,* line 13.

Part-year residents must prorate their Michigan exemption allowance based on the ratio of Michigan income to total income, computed on Schedule NR. The Dukes are allowed an exemption allowance of $6,075 as a standard deduction since they were part-year residents ($27,925 / $93,250 = 30% x $20,250). This amount should be entered on the *MI-1040,* line 15. The proration is computed on Schedule NR.

The amount of income tax withheld from Michigan earnings is reported on the *Schedule W* and carried to the *MI-1040* line 29.

Since the Dukes lived in Michigan for at least six months, they are eligible to claim a Michigan Homestead Property Tax Credit. The property taxes must be prorated for the time that the Dukes owned and occupied their new home in Michigan. Part 3 of the *MI-1040CR* should be completed. The Dukes were Michigan residents for 214 days and are able to claim $1,475 of the property taxes that were levied on their home in 2018 (214/365 = 59% x $2,500). Also, the Dukes were part-year residents so they must annualize their THR to determine if they are subject to phase-out reductions. Their THR is $32,625 consisting of $25,000 in wages earned while a Michigan resident, the $175 interest, $5,000 capital gain received while a Michigan resident, and the $2,450 lottery winnings (the amount that exceeds $300). The gain from the sale of their home in Pennsylvania is included in THR because the sale and the gain occurred while the Dukes were Michigan residents.

The annualized amount would compute to $51,874 (214/365 = 59%, $32,625 x 59% = $19,249 +$32,625). **Please note**: the annualized THR of $51,874 does not appear anywhere on the *MI-1040CR*. It is only used for reference to determine if the Dukes must reduce their property tax credit under the phase-out reduction rates. Because the phase-out reductions begin with a THR of $51,001, the Dukes are subject to phase-out reduction rates. The Dukes must refer to Table B (refer to the *Phase-Out Chart* on page 56 of the *Taxpayer Assistance Manual*) to determine the percentage of credit for which they are eligible. That percentage, 90%, is entered on the *MI-1040CR* line 43. The Dukes are eligible for a $233 property tax credit, which is carried to the *MI-1040* line 25.

The Dukes' total tax liability is $929, their property tax credit is $233, and their Michigan tax withheld is $785. The Dukes are entitled to a $89 refund.

Calculation

$93,250	AGI
(65,325)	Out-of-state income
(6,075)	Exemption allowance
$21,850	Taxable income
x 4.25%	Tax rate
$929	Tax liability
(233)	Property tax credit
(785)	Withholding
$89	Refund

Exemption allowance

27,925 Michigan income / 93,250 total income = 30%
5 allowances x $4,050 = $20,250 x 30% = $6,075

Annualized THR

214 days in Michigan / 365 days = 59%
$32,625 THR x 59% = $19,249
$32,625 THR + $19,249 = $51,874 annualized THR
90% phase-out reduction

PROBLEM 10

Thomas is 66 and Mary is 63. The couple's AGI is $28,200, which includes the following:

401K Distributions	14,050
Public Pension	13,500
Bank interest	650

The Garcias are in Tier 2 for retirement benefits, as such, their retirement benefit subtraction is limited to $40,000 for a joint return. Since the Garcias fall within Tier 2, *Form 4884* should be completed. Use the questions in "*Which Section of Form 4884 Should I Complete?"* in the MI-1040 instruction booklet (page 17) to determine which section on page 2 of *Form 4884* should be completed. It is determined that the couple should complete Section C of *Form 4884*. The $27,550 amount from line 28, Section C is entered on *Schedule 1*, line 25.

The couple is ineligible for a dividends, interest, or capital gains deduction as they were both born after 1945. Regardless, the Garcias do not owe any tax and are not entitled to a refund this tax year.

Calculation:

$28,200 AGI– $27,550 Subtractions – $8,100Exemption = $0 income subject to tax

Problem 10A

Thomas and Mary's AGI remains the same. As before, Thomas and Mary are in Tier 2. Thomas' pension is from the railroad which is not subject to taxation in Michigan. Thomas' entire railroad pension of $13,500 should be subtracted from their taxable income on *Schedule 1*, line 11, even if some of the benefits were reported as Social Security benefits on the federal return.

Form 4884 should be completed and only Mary's 401K distributions should be listed. Using the questions in "*Which Section of Form 4884 Should I Complete?"* in the *MI-1040* instruction booklet (page 17), to determine which section (A, B, C, or D) to complete, on *Form 4884*. It is determined that Section C of *Form 4884* should be completed. Since Thomas has railroad retirement benefits, the Garcias must complete Worksheet 2 in the *MI-1040* instruction book. This Worksheet is used to determine if the Garcias' pension limit subtraction of $40,000 must be further reduced by Thomas' railroad retirement benefits. In this scenario, the Garcias would still be allowed a pension subtraction limit of $40,000. Mary's 401K distributions of $14,050 are less than the maximum pension deduction allowed; $14,050 would be entered on *Form 4884*, line 28 and transferred to *Schedule 1*, line 25. Once again, the Garcias do not owe any tax and are not entitled to a refund for the tax year.

Problem 10B

In this scenario, the Garcias' AGI increased to $52,150. Michigan National Guard and military retirement benefits are exempt from taxation in Michigan. Thomas' $10,000 Michigan National Guard pension is subtracted on *Schedule 1*, line 11.

As in the previous scenarios, Thomas and Mary are in Tier 2 in regard to retirement benefit deductions. *Form 4884* should be completed and only Mary's 401K distributions should be listed. The questions in "*Which Section of Form 4884 Should I Complete?"* in the MI-1040 instruction booklet (page 17) should be used to determine which section (A, B, C, or D) to complete, on *Form 4884*. It is determined that the couple should complete Section C of *Form 4884*. Since Thomas has a pension from the Michigan National Guard, the Garcias must complete Worksheet 2 in the *MI-*1040 instruction book. After completing Worksheet 2, it is found that the Garcias would still receive a pension deduction limit of $40,000. As Mary's distributions are $41,500, the maximum pension deduction of $40,000 should be entered on line 28. This total should be transferred to *Schedule 1*, line 25. The total subtractions reported on *Schedule 1* are $50,000; this total should be transferred to line 13 of the *MI-1040*. The Garcias would not owe any tax nor would they be receiving a refund for the tax year.

Problem 10C

The Garcias' AGI is $28,200. It is important to note that distributions from a 401(k) or 403(b) plan are qualified distributions to the extent that they are attributable to the employer's contributions and employee's contributions that were mandated by the plan. An employee's contribution required by the plan to elicit an employer match is considered mandated. Amounts distributed from a 401(k) or 403(b) plan that allows the employee to set the amount of compensation to be deferred and does not prescribe retirement age or years of service do not qualify as pension benefits. Therefore, Mary's distributions from her 401K are not considered a qualifying pension eligible for subtraction from taxable income. Mary's 401K distributions for the year are not allowed as a subtraction from AGI and her 401K distributions would not be included on *Form 4884*.

Thomas' pension from the State of Michigan is a qualified pension and is eligible for subtraction from taxable income. The Garcias had no additions for *Schedule 1*. *Form 4884* should be completed and only Thomas' pension should be listed. Using the questions in "*Which Section of Form 4884 Should I Complete?"* in the *MI-1040* instruction booklet (page 17) to determine which section (A, B, C, or D) to complete, on *Form 4884*. It is determined that the couple should complete Section C of *Form 4884*. As the Garcias are in Tier 2 in this scenario, their maximum pension deduction is $40,000. Thomas' pension of $13,500 is less than the maximum deduction and should be included on line 28 of *Form 4884*. This total should be transferred to *Schedule 1*, line 25. As there are no other subtractions, the total subtraction of $13,500 is transferred to the *MI-1040*, line 13.

Mary did not have taxes withheld from her 401K and the Garcias did not pay estimated taxes.

Calculation:

$28,200 AGI
(13,500) Subtractions
(8,100) Exemptions from two exemption allowances
$6,600 Taxable Income

$6,600 Taxable income x 4.25% Tax rate = $281 Tax liability

The Garcias will have a tax due of $281 for the tax year.

Problem 10D

Magen v. Dep't of Treasury, 299 Mich.App. 566, Docket No. 302771 (2013) may affect the tax treatment of distributions from an individual retirement account (IRA) created by a rollover of funds from another retirement plan. The published decision held that distributions from an IRA are not taxable where the entire principal in the IRA originally derived from a tax-free (public) retirement plan, now subject to the restrictions for age or year of birth. Essentially, the source of the rollover determines the eligibility for subtraction.

As Thomas was born in 1945 and is considered to be a Tier 1 retiree with a public pension that is potentially exempt from Michigan tax, a "look through" for Thomas' funding of the IRA is required. The original pension was from the State of Michigan, making it a public pension. An IRA funded with pretax dollars is a federally taxable pension, as is a 401K rolled into an IRA. With consideration to Magen, Thomas' IRA distributions attributed to the rollover would be characterized the same as a public pension and would be exempt from tax in Michigan.

The Garcias would use the questions in "*Which Section of Form 4884 Should I Complete?"* in the *MI-1040* instruction booklet (page 17) to determine which section (A, B, C, or D) to complete, on *Form 4884*. It is determined that the couple should complete Section A of *Form 4884*. Thomas' IRA distribution of $13,500 should be entered as a public pension on *Form 4884*, line 10. Mary's 401K distribution of $14,050 should be entered on *Form 4884*, line 12. The total retirement and pension benefits subtraction calculates to $27,550. This total should be transferred to *Schedule* 1, line 25. Although the Garcias are considered Tier 1 retirees, they do not qualify for the interest, dividends, and capital gains deduction on the *Schedule* 1. The maximum interest, dividends, and capital gains deduction allowed must be reduced by public and private pension and retirement benefits entered on *Schedule* 1, line 25. A subtraction of $27,550 should be carried to the *MI-1040*, line 13. The Garcias would not have a tax due for the tax year, nor would they receive a refund.

Include with the return documentation showing the original funding source for the IRA to confirm its status as a public pension.

PROBLEM 11

Tilly's AGI is $38,300. Being age 62 she is in Tier 3 in regard to retirement and pension benefits. Those in Tier 3 are generally not allowed a pension deduction, meaning their entire pension is taxable. *Form 4884* states that anyone born after December 31, 1952 is not entitled to a pension subtraction and should not complete *Form 4884*. However, individuals in Tier 3 who have reached age 62 and receive pension benefits from employment with governmental agencies not covered by the Social Security Act (SSA), may be eligible for a retirement and pension deduction up to $15,000. If both spouses on a joint return have retirement benefits from an "uncovered" governmental agency, the maximum deduction is $30,000.

Since Tilly is single and receiving pension benefits from employment with a governmental agency not covered by the Social Security Act she would qualify for a pension deduction up to $15,000. When completing *Schedule 1*, Tilly would fill out line 23 and check box C (Check if SSA Exempt) to indicate that her pension is SSA exempt. She would then complete the questions in "*Which Section of Form 4884 Should I Complete?"* located in the MI-1040 instruction booklet (page 17) to determine which section (A, B, C, or D) to complete, on *Form 4884*. It is determined that she should complete Section D of *Form 4884*. Even though Tilly's pension distribution exceeded the allowed $15,000 pension deduction, only the $15,000 amount from Section D, line 28 is entered on *Schedule 1*, line 25.

As the taxpayer is not entitled to a subtraction for her entire pension distribution, she had income tax withheld from her pension distribution. *Schedule W* should be completed to demonstrate the amount of the withholding. The amount from *Schedule W* should be entered on the *MI-1040*, line 29.
Tilly is entitled to a $457 refund in 2018.

Calculation:

$38,300 AGI – $15,000 Schedule 1 subtraction = $23,300 income subject to tax
$23,300 – $4,050 exemption allowance = $19,250 taxable income
$19,250 x 4.25% = $818 tax
$818 tax liability – $1,275 Michigan withholding = $457 refund

Problem 11A

Tilly and Joe's AGI is $63,300. Being that Joe is age 66, the taxpayers are considered to be in Tier 2 in regard to retirement and pension benefits.
Taxpayers born between January 1, 1946 and January 1, 1956, who have reached the age of 62 and who receive, or whose spouse receives, pension or retirement benefits from employment with a governmental agency that was not covered by the federal Social Security Act (SSA) are entitled to a greater retirement/pension deduction or Michigan Standard Deduction. The maximum pension deduction

limit or Michigan Standard Deduction is increased by $15,000 for each individual that receives an SSA exempt retirement or pension. The "uncovered" taxpayer may deduct a maximum of $35,000 in pension income on a single return and a maximum of $55,000 in pension income on a joint return (a maximum of $70,000 is allowed on a joint return if both spouses receive pensions that were "uncovered").

Schedule W should be completed to demonstrate the amount of the withholding. The amount from *Schedule W* should be entered on the *MI-1040*, line 29.
As Tilly's pension distribution was from her employment with a local governmental agency that was not covered under the Social Security Act (taxes for social security were never deducted from her wages). The taxpayers qualify for an increased pension deduction limitation of $55,000 as they are filing a joint return and one of them had an "uncovered" pension. When completing *Schedule 1*, they would normally complete line 23, but in this scenario they should also check box C (Check if SSA Exempt) to indicate that Tilly's pension is SSA exempt.

Tilly and Joe would use the questions in "*Which Section of Form 4884 Should I Complete?"* in the *MI-1040* instruction booklet (page 17) to determine which section (A, B, C, or D) to complete, on *Form 4884*. It is determined that the couple should complete Section C of *Form 4884*. It is important to note that the instructions for *Form 4884*, line 27, state that if *Schedule* 1, line 23C and or 23F was completed, the individual(s) must account for the increase in their maximum pension deduction limit on this line. The total of Tilly and Joe's pensions is $50,000, which is less than the maximum pension deduction limit of $55,000. Their total retirement benefits of $50,000 should be entered on *Form* 4884, line 27, and transferred to *Schedule 1*, line 25. The total subtraction of $50,000 is transferred to the *MI-1040*, line 13.

The taxpayers are entitled to a $1,054 refund in 2018.

Calculation:

$63,300 AGI – $50,000 Schedule 1 subtraction = $13,300 income subject to tax
$13,300 – $8,100 exemption allowance = $5,200 taxable income
$5,200 x 4.25% = $221 tax
$221 tax liability – $1,275 Michigan withholding = $1,054 refund

Problem 11B

Beginning in 2018, taxpayers who were born after 1945, were retired as of January 1, 2013, and received SSA exempt retirement pension are allowed the same retirement and pension deductions as a Tier 2 retiree.

As Tilly retired on December 9th, 2012 she may take a pension deduction up to $35,000 ($20,000 for a Tier 2 retiree filing as single + $15,000 due to receiving a pension distribution that was from SSA exempt employment).

Tilly's AGI is $43,300.

When completing *Schedule 1*, Tilly would fill out line 23 and check box C (Check if SSA Exempt) to indicate that her pension is SSA exempt. She would then complete the questions in "*Which Section of Form 4884 Should I Complete?*" located in the MI-1040 instruction booklet (page 17) to determine which section (A, B, C, or D) to complete, on *Form 4884*. It is determined that she should complete Section C of *Form 4884*. Tilly would also check the box on line 6 of *Form 4884* to indicate that she was born after 1952, retired as of January 1, 2013, and received SSA exempt retirement and pension.

Tilly's pension is $30,000, which is less than the maximum pension deduction limit of $35,000. Her total retirement benefits of $30,000 should be entered on *Form* 4884, line 27, and transferred to *Schedule 1*, line 25. The total subtraction of $30,000 is transferred to the *MI-1040*, line 13.

Tilly's return would compute to a tax due of $393.

Calculation:

$43,300 AGI – $30,000 Schedule 1 subtraction = $13,300 income subject to tax
$13,300 – $4,050 exemption allowance = $9,250 taxable income
$9,250 x 4.25% = $393 tax
$393 tax liability – $0 Michigan withholding = $393 tax due

STATE TEST

The following pages are a test that may be used by coordinators and instructors to give their volunteers extra training and/or evaluate their volunteers' readiness to prepare Michigan tax returns.

Note: Treasury does not require that a volunteer pass this test prior to preparing tax returns. For answers to this test, coordinators or instructors may contact the Volunteer Helpline at 1-888-860-8389, or for any technical questions, call (517) 636-4230. Please select option 1 at the voice menu.

TOTAL HOUSEHOLD RESOURCES EXERCISE

Which of the following must be included in Total Household Resources?
Yes (Y) or No (N)

A.	Gambling winnings in another state	_____
B.	Proceeds received from a reverse mortgage	_____
C.	Social Security received for a minor child	_____
D.	Gain on the sale of a residence	_____
E.	Original contributions shown on a 1099R	_____
F.	Workers' compensation	_____
G.	Chore services received	_____
H.	Relief in kind (nongovernmental under $300)	_____
I.	Alimony received	_____
J.	Child support received	_____
K.	Winnings from a casino in Michigan	_____
L.	FIP paid to grandparents for care of grandchildren	_____
M.	Cancellation of debt	_____
N.	Unemployment compensation	_____
O.	Scholarships	_____
P.	Food stamps (Bridge card)	_____
Q.	Military pay	_____
R.	Life insurance proceeds from death of a spouse	_____
S.	Tax exempt Michigan municipal bond interest	_____
T.	Gross income of mother-in-law who lives rent free in taxpayer's home	_____
U.	State income tax refund received	_____
V.	Savings account withdrawals	_____
W.	Assistance received from daughter to pay rent or mortgage	_____

Which of the following may be deducted from Total Household Resources? (Y or N)

A.	Gambling losses	_____
B.	Medical insurance premiums paid by the taxpayer	_____
C.	A net operating loss	_____
D.	Roth IRA contributions	_____
E.	Alimony paid	_____
F.	Child support paid	_____
G.	Contributions to an Illinois public radio station	_____
H.	Moving expenses (out of Michigan)	_____
I.	A net loss on the sale of a personal residence ($3,000 or less)	_____
J.	Claim of right (deducted from AGI)	_____
K.	Self-employment tax deduction	_____

MULTIPLE CHOICE

(Choose the correct answer from the following, circling the corresponding letter)

1. The maximum homestead property tax refund for 2018 is?

   A. $1,300 B. $2,000 C. $1,200 D. $1,500

2. After April 18, 2018, which is the oldest year property tax return a taxpayer may still file for a refund?

   A. 2015 B. 2014 C. 2013 D. 2012

3. How long during the year must a taxpayer be a resident of Michigan to claim a homestead credit?

   A. Full year B. 6 months C. 6 weeks D. No requirement

4. Which of the following may not be claimed on the Form MI-1040CR?

   A. County taxes
   B. Collection fees up to 1 percent of property taxes
   C. Property taxes from prior years

5. How much is the homestead property tax refund for a Senior Citizen who has total household resources of $12,500 and pays annual rent of $5,400? (Assume the property is taxable and the rent does not include meals or other services).

   A. $385 B. $842 C. $867 D. $400

6. A single taxpayer who lives in a nursing home and still owns a vacant family home may claim which of the following on his or her Form MI-1040CR?

   A. Nursing home taxes only
   B. Family home taxes only
   C. Both the taxes on the nursing home and the family home
   D. The larger of the taxes on the nursing home or the family home

7. If a taxpayer moves into a new home on August 1, 2018, and is billed $500 for summer taxes on the home sold and $1,000 in winter taxes on the home purchased, how much of the property taxes may the taxpayer claim for credit? (Assume the winter taxes on the home sold were $1,500 and the summer taxes on the home purchased were $400.)

   A. $1,700 B $1,652 C. $1,748 D. $1,500

8. Which of the following is not included in household income?

   A. Social Security
   B. Unemployment
   C. Food stamps (Bridge card)
   D. Disability income

9. In 2018, Linda Little, who was born before 1946, filed a federal return as a single individual. Included in her AGI was $38,000 received from the State of Michigan retirement plan and $15,000 received from a GM retirement plan. What is Linda's total allowable pension subtraction?

   A. $45,120 B. $51,570 C. $53,000 D. 38,000

10. Which of the following may not be subtracted on the Form MI-1040?

    A. U.S. Treasury Bond interest
    B. Business income earned in another state
    C. Military pay
    D. Charitable contributions

11. Jim Dandy, a single individual age 76, received a pension of $8,500 from the city of Gladwin during the year, interest income of $2,850, and dividend income of $1,200. What is his Senior Citizen Interest, Dividend, and Capital Gain deduction?

    A. $4,450 B. $11,259 C. $4,050 D. $2,995

TEST PROBLEM

Jon and Andrew Adams are brothers who live together in the house they inherited from their father at 31506 Greenway, Swartz Creek, Michigan 48345. Jon's SSN is 202-22-2222 and Andrew's is 303-33-3333. Jon's age is 83 and Andrew's age is 85, and they do not qualify for any special exemptions. Their incomes are as follows:

	Jon	Andrew
Social Security	$4,850	$7,550
Pension:		
Ford Motor	2,900	
IRA		5,250
Interest and Dividends	250	1,585

Assume for this exercise that the social security income was not included in their federal AGI. The property taxes on their house are $2,300 and the taxable value is $60,000. They heat with gas and were billed $1,770 for the year ending October 31, 2018. The heat is in Andrew's name.

Prepare the necessary Michigan tax forms for the two brothers.