INDIVIDUAL INCOME TAX

WHAT'S NEW

Revenue Administrative Bulletin (RAB) 2023-22 Treatment of Retirement Income Under Public Act (PA) 4 of 2023

PA 4 provides taxpayers who have reached age 67 with the choice for their retirement and pension benefits deduction using the standard deduction, the deduction based on the year of the taxpayer's birth, or the pension phase-in deduction. For tax year 2024, taxpayers electing the phase-in deduction who were born after 1945 and before 1963 can deduct retirement and pension benefits up to 50 percent of the maximum private retirement deduction for the taxpayers born before 1946.

Notice: 4.25 Percent Income Tax Rate for Individuals and Fiduciaries in 2024 Tax Year

In *Associated Builders and Contractors of Michigan v Eubanks*, Case No. 23-000120-MB, the Court of Claims upheld Attorney General Opinion No. 7320, concluding that the 4.05 percent income tax rate was effective for 2023 alone. The income tax rate for individuals and fiduciaries is therefore 4.25 percent for the 2024 tax year.

The Michigan Court of Appeals affirmed the Court of Claims in a published opinion issued on March 7, 2024. Petitioners filed an application for leave to appeal to the Michigan Supreme Court, which was denied on August 30, 2024, leaving in place the Court of Appeals decision.

Notice: 4.25 Percent Tax Rate for Flow-Through Entity (FTE) Tax Years Beginning in 2024

The tax rate in effect for 2024 is 4.25 percent. Therefore, the tax rate for fiscal year filers with tax years beginning in 2024 is 4.25 percent. Fiscal filers with tax years beginning in 2023 and ending in 2024 pay FTE tax at 4.05 percent. Members that claim a credit from a fiscal filer on their 2024 Michigan Individual Income Tax (IIT) Return may be underpaid if relying solely on the FTE tax credit for the portion of their tax liability attributable to the flow-through income.

Notice: Homestead Property Tax Credit and Adjacent and Contiguous Property

Qualifying claimants who own or rent Michigan real property may claim a homestead property tax credit (HPTC) for property taxes levied on their homestead. A homestead includes property adjacent and contiguous to the home of the owner only when that property is unoccupied and not classified as commercial, industrial, residential, or timber-cut over. Previously, Treasury FAQ provided incorrect information and has been corrected.

RABs and Notices are located under the "Reports & Legal" tab on the Treasury website.

<u>Increased Exemptions</u>

The personal exemption amount for 2024 is $5,600. The stillbirth exemption for 2024 is $5,600.

Income Tax Rate

The income tax rate for 2024 is 4.25 percent.

FORMS

IIT Forms

Most IIT forms are designed for electronic scanning, which permits faster processing with fewer errors. The IIT Instruction Booklet contains information on how to correctly complete scannable forms to avoid unnecessary delays caused by manual processing.

Direct deposit of State of Michigan (SOM) income tax refunds is available. Information required for requesting the direct deposit of a refund is in the IIT Instruction Booklet.

Direct deposit is only available when Treasury is issuing a State refund and only on the first return filed each year. The Home Heating Credit Program sends the credit in the form of an Energy Draft directly to the energy provider or to the claimant. Only a claimant whose heat is included in rent should use *Direct Deposit of Refund* (Form 3174).

Treasury has seen an increase in the volume of both returns and e-file payment vouchers with masked or truncated Social Security numbers (SSN) and bank account number information. Taxpayers have been mailing the masked copy of their documents instead of the copy with the full account information displayed, which may cause significant delays in processing the returns and payments. Tax preparers should emphasize to their customers the importance of **not** mailing the masked copies.

Mailing Addresses

All **paper-filed individual returns** should be mailed to the following addresses:

***Individual Income Tax Return* (MI-1040):**

For refund, credit, or zero returns:

Michigan Department of Treasury
Lansing, MI 48956

To pay tax due:

Michigan Department of Treasury
Lansing, MI 48929

***Home Heating Credit Claim* (MI-1040CR-7):**

Michigan Department of Treasury
Lansing, MI 48956

Substitute Forms Must Be Approved

Before releasing software to tax preparers, software developers must submit forms for review and receive official approval from Forms, Documentation, and e-File Services. Approvals are granted for one year only. Software developers should not release unapproved forms to their customers.

Substitute forms filed with Treasury that are not approved will be returned to the taxpayer.

Substitute forms testing season begins in October and ends the following year in January.

TAX REFUND AND PAYMENT INFORMATION

State Tax Returns Claiming Refunds

Michigan taxpayers can elect to have their income tax refunds direct deposited into their checking or savings accounts. When carrying the direct deposit information from the federal return to the Michigan return, verify the information is correct for the Michigan return. This is especially important when taxpayers have a Refund Anticipation Loan and have designated their federal refund to pay their loans. The State refund should not go to pay those loans.

Direct deposit requests associated with a foreign bank account are classified as International Automated Clearing House Transactions. If the income tax refund direct deposit is forwarded or transferred to a financial institution in a foreign country, the direct deposit will be returned to Treasury. If this occurs, the refund will be converted to a check (warrant) and mailed to the address on the tax return. Taxpayers should contact their financial institutions for questions regarding the status of their bank account.

Treasury cannot make any changes to direct deposit information after the return is transmitted.

Refund requests cannot be made by direct deposit for an amended return. A refund check will be mailed to the address on the Michigan return.

State Tax Returns with Tax Due

If tax is due on the return, the taxpayer must submit payment by April 15, 2025. If full payment of that tax due is not submitted by April 15, 2025, the taxpayer will receive a bill with applicable penalty and interest (P & I). Payments can be made by:

- **Direct Debit:** Direct debit from a checking or savings account when the return is e-filed and supported by the software. A direct debit is a tax payment electronically withdrawn from the taxpayer's bank account through the tax software used to electronically file the IIT return. Submitting the electronic return with the direct debit information provided acts as the taxpayer's authorization to withdraw the funds from their bank account. Requesting the direct payment is voluntary and only applies to the electronic return that is being filed.

  Important: When the State return has tax due and the City return has a refund, the City refund cannot be reduced to cover the State tax due.

  Direct debit **will not** be available for the Michigan 2024 amended tax due return. Payment for an e-filed 2024 Michigan amended tax due return should be made using the *Individual Income Tax Payment Voucher* (MI-1040-V).

- **Warehousing a payment.** Warehousing a tax payment allows the taxpayer to designate the date the payment will be withdrawn from their bank account. Treasury will accept a warehoused payment date up to 90 calendar days before, but not beyond, April 15, 2025. Direct debit requests **after** the April 15, 2025, due date cannot be warehoused and must contain a direct debit date that is equal to the transmission date of the e-filed return. Treasury will not withdraw a payment from the designated bank account prior to the requested debit date. Allow three to four business days from the direct debit date of the payment for the funds to be withdrawn from the account.

  P & I will accrue on any tax due that has not been paid by the due date of the return. The day the return was transmitted, if accepted by Michigan, is the received date.

- **Mailing Form MI-1040-V with a check or money order after e-filing the MI-1040 return**. The MI-1040-V should not be included with a copy of the return and should not be used for any other payments made to the SOM (such as a City of Detroit tax due). When the payment is made electronically, there is no need to mail the MI-1040-V to Treasury.

- **Michigan IIT e-Payments system by direct debit (eCheck) from a checking or savings account, or by using a credit or debit card**. Michigan IIT filers have the option of making payments electronically using IIT e-Payments system. Paying electronically is easy, fast, and secure. The available payment types include IIT payments (tax due on the MI-1040), quarterly estimated income tax payments, and IIT extension payments. Payments can be made using eCheck from a checking or savings account, or credit or debit card. There is no fee for eCheck payments. Credit and debit payments will be charged a convenience fee of 2.35 percent of the total payment for credit cards and a flat fee of $3.95 for debit cards, which is paid directly to the payment processing vendor. Visit **www.michigan.gov/iit** for more information.

City of Detroit Tax Returns Claiming Refunds

Direct deposit **will not** be available for City of Detroit refunds. All City of Detroit tax refunds will be issued checks and mailed to the address on the return.

City of Detroit Tax Returns with Tax Due

In the event that tax is due on the return, the taxpayer must submit payment by April 15, 2025. If full payment of that tax due is not submitted by April 15, 2025, the taxpayer will receive a bill with applicable P & I.

Payments can be made by:

- **Direct Debit for tax years 2021, 2022, 2023, and 2024:** Direct debit from a checking or savings account when the return is e-filed and supported by the software. A direct debit is a tax payment electronically withdrawn from the taxpayer's bank account through the tax software used to electronically file the IIT return. Submitting the electronic return with the direct debit information provided acts as the taxpayer's authorization to withdraw the funds from their bank account. Requesting the direct payment is voluntary and only applies to the electronic return that is being filed.

  Important: When the City of Detroit return has a tax due and the State return has a refund, the State refund cannot be reduced to cover the City tax due.

- **Warehousing a payment.** Warehousing a tax payment allows the taxpayer to designate the date the payment will be withdrawn from their bank account. Treasury will accept a warehoused payment date up to 90 calendar days before, but not beyond, April 15, 2025. Direct debit requests **after** the April 15, 2025, due date cannot be warehoused and must contain a direct debit date that is equal to the transmission date of the e-filed return. Treasury will not withdraw a payment from the designated bank account prior to the requested debit date. Allow three to four business days from the direct debit date of the payment for the funds to be withdrawn from the account.

  P & I will accrue on any tax due that has not been paid by the due date of the return. The day the return was transmitted, if accepted by Michigan, is the received date.

- **Mailing the *Income Tax Payment Voucher* (City-V) with a check or money order after e-filing the City of Detroit return**. The City-V should not be included with a copy of the return and should not be used for any other payment made to the SOM (such as a Michigan tax due on Form MI-1040). When the payment is made electronically, there is no need to mail the City-V to Treasury.

Payment using Michigan's IIT e-Payments system is not available for City of Detroit tax due returns.

POST-FILING INFORMATION

Mailing Addresses

General income tax correspondence or returning a home heating draft for a check:

Michigan Department of Treasury
Customer Contact
P.O. Box 30757
Lansing, MI 48909

Write "Void" across the draft and include a letter of explanation. When returning home heating drafts, the dollar amount of the check will be 50 percent of the returned draft and there will be further review of the account.

Returning SOM checks:

Michigan Department of Treasury
Office of Financial Services
P.O. Box 30788
Lansing, MI 48909

Write "Void" across the check and include a letter of explanation.

Visit **www.michigan.gov/treasury** for more information.

Amended Michigan Income Tax Return (Schedule AMD)

To correct or amend information reported on Form MI-1040, check the "Amended" box at the top of page 1 of the form. A Schedule AMD must be included when the amended MI-1040 is filed.

If the original return was adjusted by Treasury and the taxpayer disagrees with the adjustments, it is not necessary to file an amended return. Simply respond to the adjustment notice with documentation to support the original claim. Treasury will review the documentation for further adjustment.

Exceptions: When correcting a *Homestead Property Tax Credit Claim* (Form MI-1040CR) when no MI-1040 was filed with the original claim, an MI-1040X/MI-1040X-12 is not required. File the MI-1040CR using the corrected figures and check the "Amended" box at the top of the form.

When correcting a *Home Heating Credit Claim* (Form MI-1040CR-7), file an MI-1040CR-7 and check the "Amended" box at the top of the form. An amended claim requesting an additional heating credit must be submitted by September 30 following the year of the claim.

When correcting a *Farmland Preservation Tax Credit Claim* (Form MI-1040CR-5), file an MI-1040CR-5 and Schedule CR-5 with a new MI-1040 and check the "Amended" box at the top of the form. Submit the amended form along with a description and any documentation needed to explain the change.

When claiming a refund from a Michigan net operating loss (NOL) carryback, do not file an amended return. To request a refund from a farming loss carryback, file *Farming Loss Carryback Refund Request* (Form 5603).

An amended return is not required to change an incorrect SSN or incorrect mailing address. Contact Treasury at **www.michigan.gov/iit** or call 517-636-4486.

An amended return claiming an additional refund must be filed within four years of the due date of the original return.

SUMMARY OF CHANGES FOR 2024

Tax Rate	4.25%
Personal Exemption	$5,600
Special Exemption	$3,300
Qualified Disabled Veteran Deduction	$500
Stillbirth Exemption	$5,600

Elect to take either the Standard Deduction, Retirement and pension deduction based on year of birth, or Phase-in Deduction under PA 4:

Standard Deduction

Michigan Standard Deduction:

Taxpayers born January 1, 1946, through December 31, 1952. The $40,000 for joint filers and $20,000 for single filer standard deduction is available if the older of you or your spouse (if married) was born during the period January 1, 1946, through December 31, 1952.

Taxpayers born January 1, 1953, through January 1, 1958, who reached age 67. The $40,000 for joint filers and $20,000 for single filer standard deduction is available if the older of you or your spouse (if married) was born during the period January 1, 1953, through January 1, 1958, and reached age 67 on or before December 31, 2024. The standard deduction against all types of income may be reduced by personal exemption amount, taxable Social Security benefits, military compensation (retirement benefits included), Michigan National Guard retirement benefits and railroad retirement benefits included in adjusted gross income (AGI).

Phase-in Deductions under PA 4 for Tax Year 2024

Taxpayers born before 1946 have no change in the deduction. For single filers the maximum private retirement benefit deduction is $64,040 and for joint filers the deduction is $128,080.

Taxpayers born 1946 through 1962 may deduct up to 50 percent of the maximum private retirement deduction for those born in 1945 or before. For tax year 2024, the deduction is $32,020 for single filers and $64,040 for joint filers.

Taxpayers born in 1963 and after are not eligible for a phase-in deduction in 2024.

Pension Deduction:

Single Filer	
(Year of Birth Deduction Limitation)	
Born before 1946: private retirement benefit limit	$64,040
Born in 1946-1952: Standard deduction against all income	$20,000
Born after 1952, pension not deductible*	0
(Phase-in Deduction Limitation)	
Born 1946 through 1962	$32,020
Joint Filers	
(Year of Birth Deduction Limitation)	
Born before 1946: private retirement benefit limit	$128,080
Born in 1946-1952: Standard deduction against all income	$40,000
Born after 1952, pension not deductible*	0
(Phase-in Deduction Limitation)	
Born 1946 through 1962	$64,040
Senior Interest, Dividend, and Capital Gains	
Single Filer (not available for senior born after 1945)	$14,274
Joint Filers (not available for senior born after 1945)	$28,548

****Exception:* Taxpayers who have reached age 62 and receive pension benefits from Social Security exempt employment with a governmental agency may be eligible for a pension deduction. See Pension and Retirement Benefits.**

SUMMARY OF CHANGES FOR PRIOR YEARS

	2020	2021	2022	2023
Tax Rate	4.25%	4.25%	4.25%	4.05%
Personal Exemption	$4,750	$4,900	$5,000	$5,400
Stillbirth Exemption	$4,750	$4,900	$5,000	$5,400
Special Exemption	$2,800	$2,800	$2,900	$3,100
Qualified Disabled Veteran Deduction	$400	$400	$400	$400
Pension Deduction				
Single Filer:				
Born before 1946: private retirement benefit limit	$53,759	$54,404	$56,961	$64,040
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
Joint Filers:				
Born before 1946: private retirement benefit limit	$107,517	108,808	$113,922	$128,080
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)	$11,983	$12,127	$12,697	$14,274
Joint Filers (not available for senior born after 1945)	$23,966	$24,254	$25,394	$28,548

***Note:** For additional information on topics in this chapter, visit www.michigan.gov/taxes and select "Individual Income Tax" and "Reports and Legal" tabs for a list of resources.*

FILING REQUIREMENTS

Filing an MI-1040 Return

An individual should file a Michigan return if they were a Michigan resident all or part of the year and filed a federal return. A nonresident is required to file a Michigan return if all or part of their income was earned in Michigan or was from Michigan sources.

A nonresident or part-year resident must use *Nonresident and Part-Year Resident Schedule* (Schedule NR) to allocate income between Michigan and other states.

Married taxpayers who filed a joint federal return must also file a joint Michigan return. Taxpayers may file either a separate or joint Michigan return if separate federal returns were filed.

Factors to Determine Domicile

A person who is domiciled in Michigan is a Michigan resident. Domicile means the fixed and permanent home to which a person, wherever temporarily located, always intends to return. A person may have several residences but may have only one domicile.

Domicile, once established, is not lost until there is a concurrence of all the following:

1. The specific intent to abandon the old domicile
2. The intent to acquire a specific new domicile
3. Actual physical presence in the new state of domicile. Generally, the domicile of the wife follows that of the husband.

Factors to be considered in determining a taxpayer's residency or domicile include where they keep their most important possessions, house their family, vote, maintain a club or lodge membership, buy automobile licenses, maintain a mailing address, bank, operate a business, or sue for divorce. However, no one of these factors is controlling.

Nonresident Aliens

Nonresident aliens must file a Michigan income tax return if their federal AGI is more than their Michigan exemption allowance. A copy of federal form U.S. 1040-NR U.S. Nonresident Alien Income Tax Return, including all schedules and worksheets, must be included with the MI-1040. An MI-1040 can be filed with a nonresident alien U.S. 1040-NR return if supported by the tax software program.

Wages or other income received by a nonresident alien working in Michigan are subject to the Michigan income tax as provided for in MCL 206.110(2). However, due to tax treaty considerations between the U.S. and other countries, wages and other income received by a nonresident alien living and working in Michigan may not be subject to the Michigan income tax if the income is excluded from AGI.

A nonresident alien is not domiciled in Michigan and, therefore, may not claim an HPTC.

Taxability of Income Derived Within Indian Country

Where the Tribal Member's Tribe/Band Does Not Have an

Implemented Tax Agreement with the State of Michigan

An individual who is a resident of Michigan and has income from Michigan sources is required to file a Michigan income tax return in accordance with MCL 206.315(1). This provision requires every person who is required to file a return under the Internal Revenue Code (IRC) to file a return under the Michigan Income Tax Act (ITA) if their AGI is in excess of the personal exemptions allowed under the ITA.

An exception exists for an enrolled member of a federally recognized Indian Tribe/Band located in Michigan where the member resides within, and the income generating activity occurs within, the member's own Tribe's/Band's Indian Country (as defined by 18 USC 1151).

Although the State cannot require tribal members to file a Michigan income tax return, if all their income is earned within their own Indian country and they meet the criteria identified below, it is recommended they file returns to avoid possible contact by Treasury based upon State and federal match programs. A return is required from tribal members if any of the Michigan income is earned outside of their Indian country and/or if any of the criteria below is not met.

Income can be deducted on the Michigan return if **all** the following conditions exist:

1. Individual is a member of a federally recognized Indian Tribe or Band
2. Individual resides within their Tribe's or Band's Indian country
3. Activity creating the income in question occurs within the member's own Tribe's or Band's Indian country.

Treasury may require additional documentation to support the above assertions.

The following income is subject to Michigan income tax:

1. Tribal/Band member income earned outside of the member's own Tribe's/Band's Indian country (including income earned within another Tribe's/Band's Indian country).
2. For nontribal members or tribal members not meeting the exemption criteria, all Michigan income is taxable whether earned inside Indian country or not.

Where the Resident Tribal Member's Tribe/Band Has an Implemented Tax Agreement with the State of Michigan

Visit "Frequently Asked Questions" or terms of the agreement posted on Treasury's website for details on Resident Tribal Member Treatment where the member's Tribe/Band has entered into a tax agreement with the State. For a list of all implemented tax agreements in Michigan, visit "Special Filing Situations" located in the "Information and Reference" section at **www.michigan.gov/iit** and select the "Tax Information for Native Americans" heading. If the Tribe/Band has an implemented agreement, it will be posted on Treasury's website. If the Tribe/Band is not listed, there is no implemented agreement for that Tribe or its members.

Estimated Income Tax

Forms

Personalized 2025 *Estimated Individual Income Tax Vouchers* (Form MI-1040ES) will be mailed to taxpayers (usually in late January or early February) who paid 2024 quarterly IIT estimates and did not use a tax preparer. Tax preparers should use their clients' personalized forms whenever possible. The personalized forms help ensure the correct account is credited. **Never photocopy** someone else's personalized forms. Personalized forms are coded with taxpayers' SSNs and are optically scanned. Coded information is machine readable on photocopies and through correction tape and fluid.

Requirements for Filing and Paying

Section 301(1) of the ITA of 1967 states:

> "Every person on a calendar year basis, if the person's annual tax can reasonably be expected to exceed the amount withheld under section 351* and the credits allowed under this part by more than $500.00, shall pay to the department installments of estimated tax under this part on or before April 15, June 15, and September 15 of the person's tax year and January 15 in the following year. Subject to subsection (3), each installment shall be equal to ¼ of the taxpayer's estimated tax under this part after first deducting the amount estimated to be withheld under section 351*."
>
> * Moved to section 703 under PA 38 of 2011.

Interest is due for each quarter if no payment is made or an underpayment exists. Taxpayers who have previously filed estimated tax payments, *Underpayment of Estimated Income Tax* (Form MI-2210), or were assessed in a prior year for underpayment or failure to file estimates will be assessed penalty as follows:

- 10 percent penalty for underpayment, or
- 25 percent penalty for failure to file estimated tax payments.

Failure to Make Estimated Payments

Use Form MI-2210 to compute the P & I on the underpayment and file with the 2024 return. If estimated payments are due and have not been paid or are underpaid, Treasury will assess P & I not paid by the taxpayer. The assessment will bill interest on the amount of tax that was due for **each quarter.** An individual may avoid all or part of the P & I if any of the following apply:

1. The individual was not required to file a tax return for 2023.

2. The individual was required to file a return for 2023 but had no tax liability.

3. The amount of tax withheld plus estimated tax payments equal at least:

    - 90 percent of the tax due for 2025, or

    - 100 percent of the tax due for 2024 (110 percent of total tax if your 2024 AGI is more than $150,000 for single filers or married, filing jointly; or more than $75,000 for married filing separately).

4. If income is not received evenly during the year, an individual may annualize their income to determine the quarterly estimated payments. (See MI-2210 for instructions.)

Annual Estimated Tax Returns

An individual may file an annual return of estimated tax rather than quarterly returns. To use this option, the taxpayer must file the first quarter 2025 MI-1040ES and pay the total estimated annual tax by April 15, 2025.

Overpayments Credited Forward to Year 2024

Treasury will reduce a claimed credit forward to the next year if the return is adjusted. The individual will be notified of the adjustment and the reduction of the credit forward. It is the individual's responsibility to make up any deficiency that may result.

E-Payments

An individual may choose to make an estimated income tax payment electronically instead of mailing a payment with the personalized form. Paying electronically through the Michigan e-Pay System is easy, fast, and secure. Payment options include direct debit from a checking or savings account, or payment by credit or debit card. If choosing to make a payment electronically, **do not** mail the MI-1040ES form to Treasury. Visit **www.michigan.gov/iit** for more information.

Seafarers, Farmers, and Commercial Fishermen

A seafarer, farmer, or commercial fisherman who receives at least two-thirds of their gross income from seafaring, farming, or fishing may file a Michigan annual return of estimated tax no later than January 15 and remit the entire amount of estimated tax with the return. This payment date may be ignored if the seafarer, farmer, or fisherman files their income tax return and pays the entire amount of tax due by March 1.

If a joint return is filed, the seafarer, farmer, or fisherman must also consider their spouse's gross income in determining if at least two-thirds of gross income is from seafaring, farming, or fishing.

Wages earned and other income received by seafarers domiciled in Michigan and sailing the Great Lakes or other waterways are subject to Michigan income tax as provided for in MCL 206.110(1). As such, seafarers must file an annual Michigan income tax return.

EXEMPTIONS

The number of exemptions that may be claimed is the number of allowable personal and dependency exemptions plus Michigan special exemptions.

The following chart lists the Michigan exemption allowance.

Tax Year	Personal and Dependency Exemptions	Michigan Special Exemptions
2021	$4,900	$2,800
2022	$5,000	$2,900
2023	$5,400	$3,100
2024	$5,600	$3,300

Definitions of Michigan Special Exemptions

Only taxpayers who are deaf, blind, totally and permanently disabled or paraplegic, quadriplegic or hemiplegic may claim a special exemption. If the taxpayer's dependent is eligible for a special exemption, the taxpayer and the dependent may not both claim that exemption.

Support for this exemption is the receipt of any of the following types of income:

- Social Security disability benefits
- Supplemental Security Income disability benefits
- Veterans' Administration disability retirement payments.

A taxpayer who is age 66 by April 30, 2024, may not claim a totally and permanently disabled exemption. Upon reaching the age of 66 by April 30, 2024, the taxpayer has reached normal retirement age and is no longer considered to be receiving disability income. The taxpayer is considered a retired senior.

Qualified Disabled Veteran Exemption

Qualified disabled veterans or taxpayers who have a dependent who is a qualified disabled veteran are eligible for a $500 exemption. Qualified disabled veteran means a veteran with a service-connected disability. A service-connected disability means a disability incurred or aggravated in the line of duty in the active military, naval, or air service as described in 38 USC 101(16).

Part-Year and Nonresident

The exemption allowance for a part-year resident or a nonresident is prorated based on the taxpayer's Michigan income subject to tax divided by total AGI.

For a couple filing a joint return, if one spouse is a full-year resident and the other is a part-year resident or nonresident, the full-year resident is entitled to one full $5,600 exemption. The part-year resident or nonresident must prorate the $5,600 exemption by the ratio of their Michigan income subject to tax to their AGI from all sources. Exemptions for dependents must be prorated by the ratio of combined (both spouses) Michigan income subject to tax to combined AGI from all sources.

Claimed as a Dependent

An individual cannot claim a personal exemption if another taxpayer (usually a parent) can claim a dependency exemption for that person. This is true even when the individual is not actually claimed as a dependent on the other's return. However, an individual who is eligible to be claimed as a dependent on someone else's return and has an AGI of **$1,500 or less** is entitled to a **refund** of all Michigan tax withheld. An individual who is eligible to be claimed as a dependent on someone else's return and has an AGI of **more than $1,500** is entitled to a $1,500 exemption allowance.

A dependent who may not claim a personal exemption may still claim one or more of the special exemptions. If a dependent claims a special exemption, the same special exemption may not be claimed on another tax return by another taxpayer.

MICHIGAN INCOME TAX TREATMENT OF CHILD'S UNEARNED INCOME

The IRC allows parents to include unearned income of a child on the parents' return. The amount of the child's unearned income included in the parents' AGI is subject to Michigan income tax. The amount must also be included in total household resources (THR) when computing the property tax and home heating credits.

ADDITIONS/DEDUCTIONS

Eliminating Income and Expenses of Producing Oil and Gas

Taxpayers are required to eliminate all income and expenses for oil and gas production in Michigan to the extent included in federal AGI. Income and expenses are eliminated from AGI by using Michigan Schedule 1. For a broad overview of the income and expenses that must be eliminated, refer to RAB 2018-8 Individual Income Tax - Eliminating the Income and Expenses of Producing Oil and Gas.

Renaissance Zones

The Michigan Renaissance Zone Act, PA 376 of 1996, permitted the designation of specific regions in Michigan as Renaissance Zones. The Michigan Economic Development Corporation (MEDC) administers the Renaissance Zone program and conducts the zone selection process.

Generally, an individual living in, or a business located and conducting business activities in, a Renaissance Zone certified or renewed before January 1, 2012, will receive an exemption, deduction, or credit from the following State and local taxes:

Individuals: Michigan Income Tax
Property Tax (except debt mills)
City Income Tax (if applicable)
Utility Users Tax (Detroit only)

Businesses: Property Tax (except debt mills)
Portion of Michigan Business Tax and City Income Tax attributable to business activity in the zone.

Zones began phasing out in 2006. The tax exemption is phased out in 25 percent increments during the zone's final three years of existence. Check with the client's local unit of government to determine if the phase out has begun. The credit is reduced as follows:

- 25 percent for the tax year that is two years before the final year of the 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.

Individual taxpayers should refer to Schedule 1 for instructions on claiming the Renaissance Zone deduction on the Michigan income tax return. For information regarding the specific zones, visit the MEDC website at **www.michiganbusiness.org**. For the phase-out and property tax information for your property, contact your local assessor. For tax questions relating to the zones, contact Treasury at:

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

Retirement and Pension Benefits

For purposes of this section, the term "pension" will include retirement and pension benefits.

A subtraction may be allowed on the Michigan return for qualifying distributions from pension plans. Pension plans include private and public employer plans, and individual accounts governed by various sections of the IRC.

The pension subtraction involves two steps:

- **First**, the pension distribution must meet certain requirements to be characterized as a qualified distribution.
- **Second**, a qualified distribution may be subject to a dollar limitation on the amount of the subtraction.

Step 1: Qualified Distribution Requirements

Employer plans and individual plans each have rules for receiving pension distributions. For a pension distribution to qualify for the Michigan subtraction, it must comply with the specific distribution rules under its plan.

Employer Plans

Employer plans are created by private companies and by public entities. The employer plan establishes the rules that govern retirement age and the pension formula for their employees. For both public and private employer plans, an employee must retire under the provisions of the plan, the pension benefits must be paid from a pension trust fund, and the payment must be made to either the employee or the surviving spouse. (Payments made to the surviving spouse are only deductible if the employee qualified for the subtraction at the time of death.)

Although traditional employer plans are defined contribution and defined benefit plans, many employers use 401(k) or 403(b) plans that incorporate employee match provisions.

Distributions from a 401(k) or 403(b) plan are qualified distributions to the extent that they are attributable to the employer's contributions or 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.

Individual Plans

Individuals may also have pension accounts created under various sections of the IRC that may or may not be part of an employer plan. To qualify for the Michigan pension subtraction, the distributions must meet the requirements set forth in the relevant section of the IRC.

Individual Retirement Account (IRA) IRC 408 Distribution Requirements

1. 59½ or older, or
2. Disability, or
3. Death – Distributions after the death of the participant may only be subtracted by a surviving spouse, and only if the distributions qualified as a subtraction for the participant at the time of death; or
4. Series of equal periodic payments made for life under IRC 72(t)(2)(A)(iv).

Distributions from a Roth IRA are not included in AGI and are not subtractable on the Michigan return.

Senior Citizen Annuity IRC 72 Distribution Requirements

1. Received from a retirement annuity policy, and
2. For life, and
3. To a senior citizen.

For purposes of the retirement annuity subtraction, a senior citizen is defined in MCL 206.514(1) as an "individual . . . who is 65 years of age or older at the close of the tax year. The term also includes the un-remarried surviving spouse of a person who was 65 years of age or older at the time of death."

Keogh or HR 10 Plans for the Self-Employed

Distributions are subject to the same general rules for other retirement plans, usually not made until a participant separates from service, the plan is discontinued, or the participant reaches age 59½.

The following distributions do not qualify for the pension subtraction:

1. Deferred compensation plans that allow the employee to set the amount of compensation to be deferred and do not prescribe retirement age or years of service, including the following:

   - Deferred compensation plans under section 457 of the IRC;

   - 401(k) plans attributable to employee contributions alone;

   - 403(b) plans other than annuities purchased by an organization exempt under IRC 501(c)(3) or a public school system.

2. Commercial Annuity Policies (unless the payments are made for life to a senior citizen)

3. Premature separation, withdrawal, or discontinuance of a plan prior to the earliest date the recipient could have retired under the provisions of the plan

4. Payments received as an incentive to retire early unless the distributions are from a pension trust

5. Eligible distributions received by a beneficiary of the decedent except for the surviving spouse

6. Distributions that are sourced to rollovers from plans or contributions that do not qualify (i.e., IRA distributions that are sourced to rollovers from a 457 plan).

Step 2: Dollar Limitations on Pension Subtractions

Once it has been determined that a pension distribution has met the requirements of a qualified distribution set forth in Step 1, the next step is to determine if there are any dollar limitations on the amount of the Michigan pension subtraction.

There are additional limitations on pension deductions based on the year of birth of the retiree who is a single filer or on the year of birth of the oldest spouse for joint filers. The sections that follow first discuss dollar limitations based on year of birth. After the date of birth limitations have been discussed, the private retirement benefit limitations will be reviewed.

Pension Limitations Based on Date of Birth

MCL 206.30(8) defines “retirement or pension benefits.” MCL 206.30(9) provides limitations to the deduction, depending upon the birth year of the retiree, as well as filing status and marital status. Retirees are divided into three categories (formerly “tiers”) based on year of birth of the taxpayer or the year of birth of the oldest spouse on a joint return.

Special rules apply for determining the limitation based on year of birth applicable to qualifying surviving spouses. A "qualifying surviving spouse" is an individual who claimed a subtraction for retirement and pension benefits or Social Security benefits on a return that was jointly filed with the decedent in the year the spouse died and the surviving spouse has not remarried. A surviving spouse may compute the subtraction based on the date of birth of an older deceased spouse. A surviving spouse born after 1945 who has reached the age of 67 and has not remarried may elect to take the greater of the standard deduction against all types of income or the retirement and pension deduction based on the date of birth of the older deceased spouse.

If the surviving spouse did not claim a subtraction for retirement and pension benefits or Social Security benefits on a return that was jointly filed with the decedent in the year the spouse died, or if the surviving spouse has remarried, then the surviving spouse may compute a retirement and pension benefits subtraction based on the year of birth of the filer (or older spouse if remarried).

Pension Limitations by Year of Birth

Taxpayers born before 1946. For a taxpayer born before 1946, the additional restrictions or limitations imposed by PA 38 of 2011 to the deduction allowed under MCL 206.30(1)(f) do not apply.

Taxpayers born 1946 through 1952. For a taxpayer born in 1946 through 1952, the maximum pension deduction is $20,000 for a single return or $40,000 for a joint return. This general deduction is sometimes referred to as a "standard deduction" because it is applied against all income. The standard deduction against all types of income is not available to the extent the deduction for U.S. Armed Forces compensation and pension benefits, Railroad Retirement Act benefits or pension benefits from Michigan National Guard services is claimed.

Generally, taxpayers who claim the standard deduction should **not** complete *Michigan Pension Schedule* (Form 4884). For exceptions regarding a qualifying surviving spouse's claim for deduction, see Form 4884 Instructions.

Taxpayers who file a joint return and the older spouse was born prior to 1946 are not eligible for the standard deduction.

If a taxpayer receives a pension from employment with a governmental agency that was not covered by the federal Social Security Act (SSA), the maximum pension deduction is increased. The "uncovered" taxpayer may deduct up to $35,000 of pension income on a single return and up to $55,000 of pension income on a joint return ($70,000 on a joint return only if both spouses were "uncovered"). At age 67, this taxpayer may deduct these increased amounts as the "standard deduction" against all income, however, the deduction against all types of income is not available to the extent the deduction for U.S. Armed Forces compensation and pension benefits, Railroad Retirement Act benefits or pension benefits from Michigan National Guard Services is claimed.

Taxpayers born after 1952. For most taxpayers born after 1952, there is no pension deduction in 2024 under the limitations imposed by PA 38 of 2011, however they may qualify for pension deduction under the phase-in approach discussed in the next section. Additionally, for some taxpayers born after 1952, at age 62 there is the limited deduction if a taxpayer receives a pension from employment with a governmental agency that was not covered by the federal SSA. The "uncovered" taxpayer, who is at least 62, may deduct up to $15,000 or up to $30,000 if both spouses were "uncovered." If the "uncovered" taxpayer had retired as of January 1, 2013, then beginning in 2018 the deduction increases to $35,000 of pension income on a single return and up to $55,000 of pension income on a joint return ($70,000 on a joint return if both spouses were "uncovered").

Most taxpayers born after 1952 are eligible for the $20,000 single/$40,000 joint standard deduction upon reaching age 67. For "uncovered" taxpayers who had retired as of January 1, 2013, upon reaching age 67 the taxpayer may claim a standard deduction equal to $35,000 for single returns, $55,000 for joint returns, or $70,000 for joint returns if both spouses are "uncovered." The standard deduction against all types of income is not available to the extent the deduction for U.S. Armed Forces compensation and pension benefits, Railroad Retirement Act benefits or pension benefits from Michigan National Guard Services is claimed.

Phase-in Percentage Pension Limitations for Tax Year 2024

Taxpayers born before 1946 have no change in the available deduction. The full amount of the allowable private retirement benefit deduction is available. For single filers the deduction limitation is $64,040 and for joint filers the deduction limitation is $128,080.

Taxpayers born in 1946 and through January 1, 1958, may elect to deduct up to 50 percent of the maximum private retirement benefit deduction or the standard deduction upon reaching the age of 67, whichever is greater. For tax year 2024, the retirement benefit deduction is $32,020 for single filers and $64,040 for joint filers.

Taxpayers born January 2, 1958, through 1962 who are 66 years old or younger are not eligible for a standard deduction, but qualify for a deduction under PA 4. For tax year 2024, the deduction is up to 50 percent of the maximum private retirement benefit deduction. For tax year 2024, maximum private retirement benefit deduction is $32,020 for single filers and $64,040 for joint filers.

Taxpayers born in 1963 and after are not eligible for a deduction in 2024, unless they qualify for the Social Security exempt pension deduction.

A taxpayer born after January 1, 1958, but before January 2, 1963, (or the older of the taxpayer or spouse, if married filing jointly), who has reached age 62 and has received retirement benefits from employment with a governmental agency that was exempt from Social Security, may be eligible for a retirement and pension deduction. The most common instances of retirement and pension benefits from employment that is not covered by Social Security are police and firefighter retirees, some federal retirees covered under the Civil Service Retirement System and hired prior to 1984, and a small number of other state and local government retirees.

Taxpayers who receive retirement or pension benefits from work in Michigan public safety service that are exempt from Social Security (a qualifying distribution) and included in AGI may subtract either the qualifying distribution or, if eligible, the Michigan Standard Deduction based on their year of birth. Taxpayers who receive a distribution from service as one of the following may qualify for a special deduction:

1. A public police or fire department employee subject to the Michigan Compulsory Arbitration of Labor Disputes in Police and Fire Departments Act.

2. A state police trooper or state police sergeant subject to the Michigan Compulsory Arbitration of Labor Disputes of State Police Troopers and Sergeants Act.

3. A corrections officer employed by a county sheriff in a county jail, work camp, or other facility maintained by a county that houses adult prisoners.

The above taxpayers may subtract all qualifying retirement and pension benefits received from federal or Michigan public sources, and may subtract private retirement and pension benefits up to $64,040 if single or married filing separately, or $128,080 if married filing a joint return. The maximum private pension limit is reduced by any deduction claimed for public pension benefits. Therefore, those taxpayers who receive public retirement benefits that are greater than the maximum amount are not entitled to claim an additional subtraction for private pensions.

INCOME TAX FOR RETIREMENT BENEFITS BY YEAR OF BIRTH EFFECTIVE FOR TAX YEAR 2024		
Taxpayers born before 1946	Taxpayers born 1946 through 1952	Taxpayers born after 1952 Before the taxpayer reaches age 67
• Social Security is exempt. • Senior citizen subtraction for interest, dividends, and capital gains up to $14,274 for single filers and $28,548 for joint filers.* • Public pensions exempt. • Private pensions, subtract up to $64,040 for single filers and $128,080 for joint filers. *Subtraction may be limited if pension benefits are also subtracted.	• Social Security is exempt. • Railroad and Michigan National Guard pensions are exempt. • Military compensation and pensions are exempt. • Not eligible for the senior citizen subtraction for interest, dividends, and capital gains. • Public and private pension limited subtraction of $20,000 for single filers or $40,000 for joint filers. • Pensions from employment with governmental agencies not covered by the SSA. $35,000 for single filer, $55,000 for joint filers, or $70,000 for joint filers if both spouses worked for an “uncovered” agency.	• Social Security is exempt. • Railroad and Michigan National Guard pensions are exempt. • Military compensation and pensions are exempt. • Not eligible for the senior citizen subtraction for interest, dividends, and capital gains. • Not eligible for public or private pension subtraction. • At age 62, pensions from employment with governmental agencies not covered by the SSA. $15,000 for single or joint filer or $30,000 for joint filers if both spouses worked for an “uncovered” agency. • Beginning in 2018, pension from employment with governmental agencies not covered by the SSA for persons retired as of January 1, 2013, $35,000 for single filer, $55,000 for joint filer, or $70,000 for joint filers if both spouses worked for an “uncovered” agency.

	Taxpayers born 1946 through 1952	Taxpayers born after 1952 who reach Age 67
	• Social Security is exempt. • Railroad and Michigan National Guard pensions are exempt (see below). • Military compensation and pensions are exempt (see below). • Not eligible for the senior citizen subtraction for interest, dividends, and capital gains. Eligible for **Standard deduction**: • Subtraction against all income of $20,000 for single filers and $40,000 for joint filers. • Subtraction increased to $35,000 for single filers and $55,000 for joint filers with pensions from employment with governmental agencies not covered by the SSA, or to $70,000 for joint filers if both spouses worked for an “uncovered” agency. • Not eligible for this income subtraction to the extent Military income and Railroad/Michigan National Guard pension exemption are claimed.	• Not eligible for the senior citizen subtraction for interest, dividends, and capital gains. • Not eligible for public or private pension subtraction. • Income exemption election: – **Elect** exemption against all income of $20,000 for single filers or $40,000 for joint filer. **Note:** No exemption for Social Security, Military compensation and pension, and Railroad/Michigan National Guard pension. No personal exemptions. **OR** – **Elect** to exempt Social Security, Military compensation and pension, and Railroad/Michigan National Guard pension. May claim personal exemptions. • Beginning in 2018, persons retired as of January 1, 2013, and receiving pension from employment with governmental agencies not covered by SSA may claim standard deduction of $35,000 for single filer, $55,000 for joint filer, or $70,000 for joint filers if both spouses worked for an “uncovered” agency; not eligible for this income subtraction to the extent Military income and Railroad/Michigan National Guard pension exemption are claimed.

PHASE-IN SUBTRACTION UNDER PA 4 FOR RETIREMENT BENEFITS EFFECTIVE FOR TAX YEAR 2024		
Taxpayers born before 1946 No change from prior years.	Taxpayers born 1946 through 1962	Taxpayers born after 1962
Private pensions, subtract up to $64,040 for single filers and $128,080 for joint filers.	Up to 50% of maximum amount of allowable deduction for those born in 1945 or before. For 2024, the deduction limits are $32,020 for single filers and $64,040 for joint filers.	Not eligible for a deduction.

Unlimited Public Pension Subtraction

Applies to retirees born before 1946, qualifying surviving spouses, and qualifying police, fire, and corrections retirees with qualified distributions from Michigan public safety service.

Michigan and Federal Public Pensions

Federal or Michigan public pensions are no longer totally exempt for all taxpayers. The amount that may be deducted depends on the year of birth for a retiree who is a single filer or on the year of birth of the oldest spouse for joint filers.

Public pensions include benefits received from the federal civil service, SOM, political subdivisions of Michigan, military, and railroad pensions. If the requirements of the plans under Step 1 are met, these distributions may be deductible depending on the age of the filers.

Public Pensions from Other States

For retirees born before 1946, the Michigan subtraction for public pensions from other states is limited to the private pension limits of $64,040 for a single filer or $128,080 for joint filers. For all other retirees, the pension limitations are based solely on date of birth and there is no difference between a private and a public pension.

Private Pensions

Private pensions include employer plans and individual plans such as IRAs and senior citizen annuities. The maximum subtraction allowed for a taxpayer who is a retiree born before 1946 with a private pension is adjusted annually by the percentage increase in the U.S. Consumer Price Index. The maximum deduction for the 2024 tax year is $64,040 on a single return and $128,080 for a joint return.

The following table outlines the annual maximum private pension deductions for retirees born before 1946:

Tax Year	Single Return	Joint Return
2020	$53,759	$107,517
2021	$54,404	$108,808
2022	$56,961	$113,922
2023	$61,518	$123,036
2024	$64,040	$128,080

Railroad Pension Benefits

The taxable amount of railroad pension income included in AGI may be subtracted on the Michigan return. Portions of a railroad pension are reported as Social Security on the federal return; however, these benefits should be subtracted as railroad pension on the Michigan return, not as Social Security.

Pension Subtraction Examples

Example 1: Combined Public and Private Retirement Benefit distributions.

Sam is retired and single and born before 1946. He has a SOM pension of $40,000 and private retirement benefits (i.e., 401(k)) of $33,000. His total pension deduction for 2024 is determined as follows:

Maximum Private Retirement Benefit Deduction	$64,040
Less: Public Pension	-$40,000
Allowable Private Retirement Benefit Deduction	$24,040

Sam's total pension deduction is:

Public	$40,000
Private	$24,040
Total	**$64,040**

Since Sam's public pension is $40,000, his private retirement benefit deduction is limited to $24,040.

Example 2: Employer and Employee contributions to a 401(k) plan.

Stuart's employer established a 401(k) plan for its employees. The plan provides for a 50 percent employer match of employee contributions up to the maximum employer match of 3 percent of the employee's salary. The plan also allows the employees to make additional unmatched contributions up to the annual percentage rate allowed by the IRC. In 2024, Stuart retired under the provisions of the retirement plan at age 60. At the time of his retirement, Stuart received an annual statement from the 401(k) plan showing total contributions of $400,000, of which $100,000 were employer contributions. Stuart took a distribution of $25,000 in 2024, the year he retired.

Since the plan includes unmatched employee contributions, Stuart must determine what amount of the $25,000 distribution is attributed to the unmatched contributions. The plan called for a 50 percent employer match; therefore, $200,000 of the employee contributions was required to elicit $100,000 employer matching contributions. The remaining account balance of $100,000 is unmatched employee contributions. The deductible amount of the 2024 distribution is determined as follows:

$100,000/$400,000 x $25,000 = $6,250 (distribution attributed to unmatched contributions)

$25,000 - $6,250 = **$18,750 (Maximum allowable pension subtraction. Actual subtraction may be further limited based on the date of birth of the retiree.)**

Individual Retirement Accounts (IRAs)

Retirement or pension benefits that may be subtracted on the Michigan return includes qualifying distributions from IRAs. For additional information regarding IRAs, refer to RAB 2017-21 Individual Income Tax – Individual Retirement Arrangements.

2024 Pension Subtraction Table for Retirees Born Before 1946

The 2024 deductible pension benefits are limited to the lesser of the amount included in AGI or the amounts shown below.

Source of Pension Benefits	Single	Joint
U.S. Civil Service	Amount included in AGI	Amount included in AGI
State of Michigan	Amount included in AGI	Amount included in AGI
Michigan political subdivisions	Amount included in AGI	Amount included in AGI
Private	$64,040	$128,080
Public pensions (from other states)	$64,040	$128,080
Qualified senior citizen retirement annuities	$64,040	$128,080
Public and private	Limited to public pension or $64,040, whichever is greater (cannot exceed actual qualified distributions received).	Limited to public pension or $128,080, whichever is greater (cannot exceed actual qualified distributions received).

1099-R Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., Distribution Codes

Recipients of a pension distribution receive Form 1099-R. There is a box on Form 1099-R titled "Distribution code(s)." Look in the "Distribution code(s)" box for the number that describes the condition under which the pension or retirement benefit was paid.

1099-R Dist. Code	Description	Is the condition eligible for Michigan tax exemption? (Dollar and date of birth limits may still apply)
1	Early distribution, no known exception	No
2	Early distribution, exception applies	No, **unless:** • Part of a series of substantially equal periodic payments made for the life of the employee or the joint lives of the employee and employee's beneficiary. • Early retirement under the terms of the plan.
3	Disability	Yes
4	Death	Yes, • For surviving spouse only and only if the decedent would have also qualified for a normal distribution under Distribution Code 7 at the time of death. This may be subject to limitations based on the year of birth of the decedent. No, • For all other beneficiaries. No, • If paid as a death benefit payment made by an employer but not made as part of a pension, profit-sharing, or retirement plan.
5	Prohibited transaction	No
6	Section 1035 exchange: tax-free exchange of life insurance, endowment insurance, and annuity contracts	No
7	Normal distribution from a plan; distribution from a traditional IRA if the participant is at least 59½; Roth conversion if the participant is at least age 59½; or distribution from a life insurance, annuity, or endowment contract	Yes
8	Taxable excess contribution plus earnings/excess deferrals and/or earnings	No
9	Cost of current life insurance protection	No

DEFERRED COMPENSATION

Distributions received from deferred compensation plans that allow the employee to set the amount of compensation to be deferred and do not prescribe retirement age or years of service are treated as ordinary income. Deferred compensation distributions are usually **not** considered pension income and may **not** be subtracted on the Michigan return even when a distribution code 7 is indicated on the 1099-R.

Federal law 4 USC 114 prohibits a state from taxing certain deferred compensation distributions received by a nonresident. Therefore, nonresidents are not subject to Michigan income tax on distributions from deferred compensation plans as defined in IRC 401(k), 457, and 3121(v)(2)(c).

INTEREST, DIVIDENDS, AND CAPITAL GAINS DEDUCTION FOR SENIOR CITIZENS BORN BEFORE 1946

Senior citizens born before 1946 may take a deduction for interest, dividends, and capital gains up to $14,274 for a single return and $28,548 for a joint return for the 2024 tax year. The deduction is adjusted by the percent increase in the U.S. Consumer Price Index each year. This maximum deduction must be reduced by the amount of deduction taken for pension income.

Examples:

Step 1: James and Joanne are married and file a joint income tax return. James was born before 1946. A partial listing of their income is as follows:

Pension Income	$6,000
Capital Gains	$13,000
Dividend Income	$1,800
Interest Income	$3,800

Step 2: Calculation of interest, dividend, and capital gains deduction:

Maximum Deduction	$28,548
Less: Pension Subtraction	6,000
Maximum Allowable Deduction	$22,548

Step 3: Total interest, dividends, and capital gains = $18,600

Step 4: Use the **lesser** of the total interest, dividends, and capital gains ($18,600) or the maximum allowable deduction ($28,548).

Step 5: The interest, dividends, and capital gains deduction for James and Joanne is **$18,600.**

The term "senior citizen" for purposes of this deduction, refers to a person 65 years of age or older or an un-remarried surviving spouse of an individual who was 65 years of age or older at the time of death. This deduction is available only to taxpayers born before 1946 or the surviving spouse.

Michigan Education Savings Program (MESP)

MESP is administered by Treasury and managed by Teachers Insurance and Annuity Association of America College Retirement Equities Fund (TIAA-CREF). To open an education savings account, an individual must enter into an agreement with the program manager. The total of all account balances on any beneficiary cannot exceed $500,000.

Distributions from the account must be used to pay qualified higher education expenses incurred after the account is established. A nonqualified distribution will be subject to a penalty of 10 percent of the distribution if no federal penalty is imposed on the nonqualified withdrawal.

A deduction may be taken on the Michigan income tax return for contributions made to the MESP on or after October 1, 2000. The maximum deduction is $5,000 for a single filer ($10,000 for a jointly filed return). The amount deducted includes total contributions made to the plan less qualified withdrawals made during the tax year. A taxpayer must add to federal AGI any nonqualified withdrawal from the MESP in the year of the withdrawal.

Interest earned on contributions made to an MESP account may be deducted to the extent included in AGI. The beneficiary of the MESP account may deduct qualified withdrawals to the extent included in AGI.

For more information on the MESP, contact MESP at 1-877-861-MESP, **info@misaves.com**, or www.misaves.com.

Michigan Education Trust (MET)

MET allows parents, grandparents, and others to pre-purchase undergraduate in-state and in-district tuition for a child at any Michigan public college, university, junior college, or community college.

Payments made under an advance payment contract in MET during the tax year are deductible to the extent they are included in federal AGI on a purchaser's Michigan income tax return. The contract processing fee may also be subtracted on the Michigan return. Interest payments made on loans to finance the contract are not deductible. MET contracts are only set up in specified enrollment periods.

Earnings on the qualified distributions are tax-free on the beneficiary's federal and State income tax returns. A nonqualified distribution is subject to federal and State income tax.

For more information or contract materials, contact MET at 1-800-MET-4-KID, **treasMET@michigan.gov**, or www.michigan.gov/setwithmet.

Coverdell Educational Savings Account

The Coverdell Educational Savings Account (Coverdell ESA) is structured as a trust or a custodial account for the purpose of paying educational expenses of a designated beneficiary and follows the same general rules as other IRAs.

The contributions made to a Coverdell ESA are not tax deductible. The contributions are limited to $2,000 a year.

The distributions from a Coverdell ESA are tax-free if they do not exceed the beneficiary's qualified educational expenses to an approved educational institution. An approved institution is any accredited postsecondary educational institution offering credit towards an associates, bachelors, graduate level, or professional degree.

Any investment earnings will accrue tax-deferred or tax-free. However, any distribution that is included in AGI is taxable in Michigan.

Michigan Achieving a Better Life Experience Program (MiABLE)

The MiABLE Act, signed into law October 28, 2015, and made effective January 26, 2016, created a new savings program under the authority of IRC Section 529A, which is aimed at encouraging and assisting individuals and families to save private funds to support individuals with disabilities. The program is administered by Treasury and is similar to Treasury's administration of higher education savings accounts (529 Plans). Treasury has partnered with TSA Consulting Group to manage the program.

Contributions to an MiABLE account are made with after-tax dollars and may not exceed the annual federal gift tax exclusion amount (currently $18,000) per single contributor for each designated beneficiary. Total aggregate contributions may not exceed $500,000 for all accounts of the same designated beneficiary.

Distributions from the account must be used to pay for the qualified disability expenses of the eligible designated beneficiary of the account. To the extent that distributions exceed a designated beneficiary's qualified disability expenses, the earnings portion of distributions is includible in the gross income of the designated beneficiary. A taxpayer must add to federal AGI any nonqualified withdrawal from a MiABLE account in the year of the withdrawal to the extent a deduction was claimed for the amount withdrawn.

A deduction may be taken on the Michigan income tax return for contributions made to a MiABLE account. The maximum deduction is $5,000 for a single filer ($10,000 for a jointly filed return). The amount deducted includes total contributions made to the plan less qualified withdrawals made during the tax year.

Interest earned on contributions made to an MiABLE account may be deducted to the extent included in AGI. The beneficiary of the MiABLE account may deduct qualified withdrawals to the extent included in AGI.

For more information, visit **www.miable.org**.

NONRESIDENTS' TAXABLE INCOME

The following income of nonresidents is subject to the Michigan income tax:

1. Salary, wages, commissions, and other personal service income for work performed in Michigan.

2. Income allocable or apportionable to Michigan, including portfolio income, from partnerships, S corporations, and limited liability companies having business activity in Michigan, or business or farm income from a sole proprietorship or farm located in Michigan. Significant changes to the apportionment of business income have occurred as a result of legislative changes taking effect in 2012 and the Michigan Supreme Court holding that combined apportionment under the unitary business principle may be used to calculate an individual's taxable income at the election of the taxpayer. *Malpass v Department of Treasury,* 494 Mich 237 (2013). (See the "Flow-Through Entity Distribution of Income and Losses" and "Apportionment of Income from Flow-Through Entities Under the Unitary Business Principle" sections for more information.)

3. Rent and royalty income from real and tangible personal property located in Michigan.

4. Capital gains/losses from the sale or exchange of real or tangible personal property located in Michigan.

5. Patent or copyright royalties if the patent or copyright is used in Michigan or has a commercial domicile in Michigan.

6. Michigan lottery, raffle, bingo, and charitable gaming winnings.

7. Michigan casino winnings and winnings from pari-mutuel wagering at licensed horse racing meetings in Michigan.

8. Distributable net income received from a trust attributable to Michigan, including business income and gain from property located in Michigan.

Michigan has **reciprocal agreements** with **Illinois, Indiana, Kentucky, Minnesota, Ohio,** and **Wisconsin** that exempt nonresidents from income taxes imposed by each state on salaries, wages, and other employee compensation. Business income and gambling income are not subject to these reciprocal agreements. Business income is subject to the allocation and apportionment provisions in Chapter 3 of the ITA.

Withholding for Nonresidents

PA 158 of 2016 repealed the nonresident withholding requirement for flow-through entities with tax years beginning after June 30, 2016.

Nonresidents are required to pay Michigan income taxes on winnings from casinos and pari-mutuel wagering at licensed horse races. Withholding is therefore required for nonresidents on the following winnings:

1. Nonresidents reportable under federal casino law by casinos licensed under the Michigan Gaming Control and Revenue Act, and

2. Nonresidents reportable under the federal law by race meeting licensees and track licensees operating under the Horse Racing law of 1995.

FLOW-THROUGH ENTITY DISTRIBUTION OF INCOME AND LOSSES

Business income derived from business activity in Michigan is subject to income tax. Business income can be sourced to a sole proprietorship or to a flow-through entity. Income received from a "C corporation" is not business income if it is received as wages or dividends.

Income flowing through to a shareholder of an S corporation, a partner of a partnership, a member of a limited liability company, or the owner of any other flow-through entity is business income and is subject to the allocation and apportionment provisions of the ITA.

The taxpayer's distributive share of such income and losses shall be allocated or apportioned to the state where the business activity takes place using the sales factor. The apportionment is computed on the *Schedule of Apportionment* (Form MI-1040H). Business income allocated or apportioned to Michigan is taxable to Michigan.

A Michigan resident may subtract from AGI income that is not allocated or apportioned to Michigan. Conversely, losses not allocated or apportioned to Michigan must be added to AGI.

Portfolio income is business income and is subject to allocation or apportionment. Portfolio income includes interest income, dividend income, royalty income, and net short-term and long-term capital gain (loss) reported on the federal Schedule D. Resident or nonresident individual taxpayers having portfolio income from a multistate partnership, S corporation, or other flow-through entity must apportion this income using the apportionment formula as computed on Form MI-1040H.

A nonresident member of any flow-through entity doing business in Michigan must file a Michigan return to report their distributive share of income from the flow-through entity. To the extent included in AGI, the income is taxable even if it is not actually distributed to the member.

When filing Form MI-1040H, note that the computation of the apportionment percentage is not the same for IIT as for Michigan Business Tax (MBT) or Corporate Income Tax (CIT). When computing the sales factor, throwback sales for IIT follow Public Law (PL) 86-272 standards. Also, foreign sales can be included in the numerator for IIT purposes. The IIT standard for determining if the taxpayer is taxable in another state uses the PL 86-272 nexus criteria. In general, a taxpayer's business must have property in another state or activity that goes beyond solicitation of sales to be taxable in the other state.

An S corporation is permitted to own a qualified subchapter S subsidiary (QSub). The term includes any domestic corporation that qualifies as an S corporation and is 100 percent owned by an S corporation parent, which elects to treat it as a QSub. The assets, liabilities, and items of income, deduction, and credit of the QSub are treated as those of the parent S corporation.

Business, Rental, and Royalty Activity Worksheet

When a taxpayer has non-Michigan business activity and income not subject to tax in Michigan that is included in federal AGI, the taxpayer is required to provide information regarding that income, including the type and location of the business activity and a description of the income not taxable in Michigan. The business activity spreadsheet, Business, Rental and Royalty Activity Worksheet (Business Activity Worksheet) is intended to aid individuals and tax preparers in providing this information and in reconciling the taxpayer's MI-1040 to their federal 1040. The Business Activity Worksheet can be obtained by visiting **www.michigan.gov/iit** and selecting "Tax Forms," then "Individual Income Tax Forms and Instructions," and finally "Activity Worksheet." The Business Activity Worksheet is not a required attachment. However, submitting the worksheet could reduce the need for further correspondence and avoid delays in processing the return.

The Business Activity Worksheet allows taxpayers to identify the location of Michigan and non-Michigan business activity and rental activity. It also allows other non-business income to be identified as Michigan or non-Michigan income. To provide the required information, include the Business Activity Worksheet with an e-filed or paper filed return. The Business Activity Worksheet, or any similar worksheet that identifies the type and location of Michigan and non-Michigan business activity and non-business income, may be included as a PDF attachment with an e-filed return using the file name, "BusinessActivity.pdf." The Business Activity Worksheet or similar worksheet may also be included with a mailed paper return.

Composite IIT Return for Nonresident Partners/Shareholders/Members

Partnerships, S corporations, limited liability companies, and other flow-through entities can file a *Composite Individual Income Tax Return* (Form 807) for nonresident partners/shareholders/members. The flow-through entity must have two or more nonresident partners/shareholders/members who participate on Form 807. Form 807 is an IIT return ultimately filed on behalf of nonresident individuals or trusts. Member flow-through entities may participate on behalf of their members who are nonresident individuals. Flow-through entities may not file Form 807 on behalf of C corporation members.

Estimated payments are required if the share of annual income tax liability for any participant is expected to exceed $500 after exemptions and credits. The estimated payments must be remitted with an *Estimated Income Tax Voucher for Fiduciary and Composite Filers* (Form MI-1041ES) with the name of the flow-through entity and the flow-through entity's Federal Employer Identification Number (FEIN). **Do not** submit estimated payments for members who will not participate in the composite return with Form MI-1041ES. Estimated payments should only be remitted for participants.

Individual participants who have other Michigan income that requires them to file a MI-1040 return may not subtract the income reported on the composite return, but they may claim a credit on the MI-1040 for their share of the tax paid on a composite return. The credit should be entered on the MI-1040 as if it were tax withheld.

Flow-through entities using a calendar tax year must file vouchers and pay quarterly estimated tax by April 15, July 15, October 15, and January 15. Flow-through entities that are not using a calendar year must file vouchers and pay quarterly estimated tax on the appropriate due dates that, in the flow-through entity's fiscal year, correspond to the calendar year. Fiscal year filer due dates apply regardless of the tax years of the participants.

Flow-Through Entity (FTE) Tax for Entities that Elect to Pay

Effective January 1, 2021, Michigan enacted an optional FTE tax for flow-through entities in Michigan. Flow-through entities with business activity in Michigan may therefore elect to pay tax, at the individual income tax rate in effect, on the portion of their business income tax base that is sourced to Michigan. Based on the payment of the FTE tax, owners of that electing flow-through entity may be required to report certain special information on their respective Michigan income tax return, including, most notably, a refundable income tax credit for their share of the FTE taxes levied and paid. For more detailed information about the FTE tax, visit Treasury's website at **www.michigan.gov/taxes/business-taxes/flowthrough-entity-tax**.

APPORTIONMENT OF INCOME FROM FLOW-THROUGH ENTITIES UNDER THE UNITARY BUSINESS PRINCIPLE

The due process and commerce clauses of the U.S. Constitution impose limitations on a state's power to tax activity beyond its borders. However, when a business operates in more than one state, the U.S. Supreme Court permits states to tax the business on an apportionable share of the multistate business based on the proportion of activity that took place in the taxing state. This is known as the unitary business principle. A unitary business is one that has a flow of the value between its various operations or entities. Factors that establish flow of value include functional integration, economies of scale, and centralized management.

If business operations are organized as separate legal entities but still operate as a unitary business, Part 1 of the ITA is silent as to whether the business income of each entity must be apportioned at the single entity level for each entity or whether the business income of all the separate entities may be combined and apportioned using the combined sales factors of all the entities. The Michigan Supreme Court has determined that this legislative silence permits a taxpayer to apportion business income using either the single entity apportionment method or the combined multiple entity apportionment method ("combined apportionment"). Refer to *Malpass v Department of Treasury*, 494 Mich 237 (2013) for more information.

Single Entity Apportionment

A taxpayer may elect to apportion the business income derived from legally separate entities on a separate entity basis or a combined multiple entity basis. If the taxpayer elects to use single entity apportionment, the taxpayer's distributive share of business income from each flow-through entity is multiplied by the sales factor for that flow-through entity. The resultant Michigan apportioned income from each entity is added together to determine the taxpayer's Michigan business income.

Combined Multiple Entity Apportionment

A taxpayer may elect to apportion all unitary entities together if the taxpayer controls the entities included in the combined apportionment filing. This method combines all the sales of all the unitary entities to create a single sales factor. The sales factor is applied to the combined business income of all the unitary entities.

The MI-1040H includes an example statement when combined multiple entity apportionment is elected. The statement demonstrates the required information taxpayers must provide when apportioning unitary business income. It identifies the members in the group, shows the combining calculations, and includes an explanation that supports the flow of value between the entities. The statement may be included as a PDF file with an e-filed return using the file name "UnitaryCalculation.pdf." The statement may also be included with a paper filed return. Although the statement is not a required attachment, submitting the required information with the statement included could reduce the need for further correspondence and avoid delays in processing the return. An example statement can be found on the MI-1040H, which is obtained by visiting **www.michigan.gov/iit** and selecting "Tax Forms."

ADJUSTMENTS OF CAPITAL GAINS AND LOSSES

The purpose of *Adjustments of Capital Gains and Losses* (Form MI-1040D) is to exclude from Michigan taxable income those gains and losses that are not subject to tax by Michigan. If a taxpayer sells property that they owned prior to October 1, 1967, when Michigan enacted the ITA, only that portion of the gain attributable to the time Michigan has had an income tax can be taxed. Similarly, if the gain was attributable to another state and therefore not subject to Michigan tax, it cannot be included in Michigan taxable income. The MI-1040D functions to remove the federal gain or loss and replace it with the Michigan gain or loss to arrive at Michigan taxable income. If the Michigan gain or loss is identical to the federal gain or loss, it is not necessary to file the MI-1040D.

MI-1040D for the adjustment of **capital gains and losses** must be used if any of the following are true:

1. Taxpayer disposes of assets acquired prior to October 1, 1967, and elects to exclude gains or losses under Section 271.

   To apportion under Section 271:

   Multiply gain or loss by number of months property was held after September 30, 1967. Then divide the result by the total number of months held.

2. Taxpayer has gains or losses from the sale or exchange of U.S. obligations that cannot be taxed by Michigan.

3. Taxpayer has gains or losses from property located in other states that are subject to the allocation and apportionment provisions.

NET OPERATING LOSS (NOL)

The Michigan NOL deduction, which is statutorily provided for in Section 30(1)(m) and (n) of the ITA, requires that a Michigan NOL be determined by following the general NOL provisions of IRC 172 but applying those provisions only to Michigan-sourced income, losses, and deductions. The Michigan NOL, once created, is carried to other tax periods in the same manner as provided in the IRC.

In recent years, federal legislation has made significant changes to the computation and deduction of NOLs under the IRC. Prior to 2018, NOLs could be carried back two years, carried forward for 20 years, and deducted against 100 percent of taxable income. With the enactment of the Tax Cuts and Jobs Act (TCJA), however, significant limitations were introduced on the use of NOLs, including, most importantly, the elimination of the two-year carryback period for nonfarming NOLs and the limitation of the deduction to 80 percent of taxable income. Although the limitations of the TCJA were originally intended to take effect for all losses arising in tax years 2018 through 2025, the implementation of those limitations was later delayed until tax year 2021 as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The economic relief within the CARES Act also included the creation of an expanded five-year carryback period for NOLs incurred in tax years 2018, 2019, and 2020 and subject to additional taxpayer elections. As a result of these federal changes, the rules applicable to an NOL generally depend on the specific year in which the loss was incurred.

Because the Michigan NOL is computed and used according to the same provisions of the IRC, the changes of the TCJA and the CARES Act similarly impacted Michigan NOLs. To facilitate the effect of these changes in Michigan, Treasury has designated NOLs into three distinct groups. NOLs incurred in tax years before 2018 are designated as "Group 1 NOLs," which are subject to the same NOL rules prior to the introduction of the TCJA. NOLs incurred in tax years 2018 or later are generally designated as "Group 2 NOLs," with NOLs created in 2018, 2019, and 2020 and subject to the special CARES Act provisions designated as "Group 2 CARES NOLs," and NOLs created after 2020 and subject to the full TCJA limitations designated as "Group 2 TCJA NOLs."

Taxpayers need to use the appropriate tax form for the particular type of NOL. All Michigan taxpayers must complete *Net Operating Loss Schedule MI-1045* (Form MI-1045) to determine if a Michigan NOL has been incurred for the tax year. While the carryback of a "Group 1 NOL" can be done by filing Form MI-1045, the carryback of a "Group 2 CARES NOL" should be done through *Net Operating Loss Carryback Refund Request* (Form 5603-CARES Act). While there is no carryback for nonfarming "Group 2 TCJA NOLs," farming losses incurred after 2021 may still be carried back for two years. The carryback of a farming loss incurred in 2021 or later should be done using *Farming Loss Carryback Refund Request* (Form 5603).

The relevant rules regarding Michigan NOLs can be summarized in the following table:

	Group 1 NOL	**Group 2 CARES NOL**	**Group 2 TCJA NOL**
Created from losses incurred in tax year	Pre-2018	2018, 2019, 2020	2021 and beyond
Carryback rule	two-year carryback	five-year carryback	No carryback (exception: two-year carryback for farming losses)
Carryforward rule	20 years	Unlimited	Unlimited
Deduction to % of Taxable Income	100%	100% if used prior to 2021; 80% if used after 2020	80% of taxable income
Appropriate Michigan form to file for carryback	MI-1045	5603-CARES Act	No carryback (exception: farmers use Form 5603 for the carryback of farming losses)

In addition, for 2024, the deduction of business losses claimed on federal individual income tax returns will be limited to no greater than $305,000 for single filers ($610,000 for married filing joint taxpayers) and adjusted annually. Business losses in excess of the cap are considered excess business loss and are carried over to future years as an NOL. The excess business loss can be computed for Michigan return filing purposes on *Excess Business Loss MI-461* (Form MI-461).

For additional information regarding the computation and deduction of the Michigan NOL, please see RAB 2020-23 - Individual and Fiduciary Income Tax Net Operating Loss.

GAMBLING INCOME

Income from gambling activities from Indian or privately held casino's games of chance, horse racing, lottery winnings, etc., is subject to Michigan income tax to the extent the winnings are included in federal AGI. The Michigan ITA use of AGI from the federal return as a starting point in computing Michigan income tax means that the wagering gains of both professional and casual gamblers are reflected on the Michigan return.

The treatment of wagering losses on the Michigan return depends on the taxpayer's status as either a professional or casual gambler. For a professional gambler, all federally deductible losses automatically carry over to the Michigan return because such losses are a component of the professional gambler's trade or business income used to determine AGI. For a casual gambler, wagering losses can only be reported federally as an itemized deduction. Itemized deductions are not typically carried over to the Michigan return; however, for tax years beginning on or after January 1, 2021, a casual gambler that itemizes deductions on their federal income tax return may deduct any itemized wagering losses deducted on the federal income tax return for the same period. For nonresident casual gamblers, this deduction is limited to the itemized wagering losses for transactions placed at casinos or racetracks located in Michigan. Casual gamblers that do not itemize their federal income tax return are not eligible to claim any deduction on their Michigan return. Treasury will, however, accept the session method for purposes of computing a casual gambler's gambling income resulting from slot machine wagering transactions and all other casino games.

Both professional and casual gamblers may only deduct wagering losses on the federal return to the extent of wagering gains. Recent federal tax reform expands wagering losses to include expenses incurred in carrying on the trade or business of gambling. Therefore, those non-wagering expenses must be added to the professional gambler's total losses before netting them against winnings for tax years beginning in 2018 through 2025.

Both professional and casual gamblers must keep records sufficient to verify wagering gains and gambling losses claimed on their return. An accurate diary or other daily record should be maintained. A gambler deducting losses on their return must be able to provide receipts, tickets, statements, or other records showing both the amount of winnings and losses. Statements generated by gambling establishments and produced to the gambler are insufficient by themselves to document a taxpayer's total wagering gains and gambling losses.

For more information, see RAB 2022-22 Income Tax - Treatment of Gambling Gains, Losses, and Expenses.

MILITARY PAY

Pay received by members of the U.S. armed forces is not subject to Michigan income tax. The W-2 form will show if the individual's pay is active duty military pay. Eligible military pay includes:

- Active duty pay and military retirement pay, including Michigan National Guard pension/retirement benefits

- Reserve duty pay

- Michigan National Guard pay **only for the following:**

  - Weeknight and regular weekend drills
  - Summer camp
  - Pay received for riot duty only if nationalized by the President of the U.S.
  - Public Health Officers pay only for those assigned to the Coast Guard or who are nonresidents of Michigan
  - Retirement/pension benefits.

Military pay does **not** include:

- W-2 forms from an Officer's Open Mess or similar establishment or from the military showing an employer number identifying a civilian employee

- Wages paid to employees of the United States Property and Fiscal Office

- National Guard pay for the following:

  - Riot duty when called to duty by the Governor (paid by the State)
  - Full-time employment for which the taxpayer received a W-2 from the State.

- Resident Public Health Officers (employees of Health and Human Services) for those not assigned to the Coast Guard.

Residency of military personnel and public health officers remains with the state from which the individual entered the service unless the individual filed a declaration with the service to change it.

Under the Military Spouses Relief Act, the spouse of an individual in the military is a nonresident of a state and consequently not subject to that state's taxation if:

- The service member is present in that state due to military orders
- The spouse is in that state solely to accompany the service member
- The spouse maintains a domicile in another state.

A military spouse who is a Michigan resident and plans to return to Michigan should include income earned in the other state on their Michigan income tax return. A Michigan military spouse may not claim a credit for the income taxes paid to another state. The military spouse must file a nonresident return with the other state to obtain a refund of taxes paid to that state.

Effective beginning with the 2023 tax year, the Veterans Auto and Education Improvement Act of 2022 allows a service member and their spouse to elect one of the following as their state of residence for income tax purposes:

- The service member's state of residence
- The spouse's state of residence
- The service member's permanent duty station.

PRINCIPAL RESIDENCE EXEMPTION

The Principal Residence Exemption (PRE) statute provides homeowners with an exemption from their local school operating millage, lowering their property tax bills.

To claim a PRE, a homeowner must file a *Principal Residence Exemption Affidavit* (Form 2368) with the local assessor. A homeowner who owns and occupies a property as a principal residence on or before June 1 and submits Form 2368 to the local tax collecting unit on or before June 1 may qualify for a PRE beginning with the summer tax levy or, if there is only one tax levy, the homeowner will be qualified for the entire year. A homeowner who owns and occupies a property as a principal residence prior to November 1 and submits Form 2368 to the local tax collecting unit on or before November 1 may qualify for a PRE beginning with the winter tax levy.

Principal Residence Exemption Records Review

The local unit of government or Treasury may perform administrative audits of the PRE records. As a part of the audit, a homeowner may be contacted to provide information to verify that the property under review was the homeowner's principal residence for the years in question. If a homeowner receives Treasury's request for more information, it is important to respond in writing. The homeowner's response must be received within 30 calendar days from the date on the letter. Failure to respond may result in a denial of the exemption.

Common reasons for Treasury to request more information are:

- Failure to rescind an exemption by filing a *Request to Rescind Principal Residence Exemption* (Form 2602) when the property is transferred or sold.
- The property in question was not a principal residence during the years in question.
- The homeowner is filing annual income tax returns from an address other than the address of the principal residence.

Factors to be considered in determining a taxpayer's principal residence include where the taxpayer keeps important possessions, houses family, votes, maintains club and lodge memberships, buys automobile licenses, maintains a mailing address and banks, operates a business, or sues for divorce. However, no one of these factors is controlling.

NONREFUNDABLE CREDITS

Credit for Income Tax Imposed by Qualified Government Units Outside Michigan

A Michigan resident is allowed a credit for income taxes imposed by another state of the U.S., a political subdivision (city, county, etc.) of another state, the District of Columbia, or a Canadian province. Only tax imposed on income that is also subject to Michigan tax may be claimed for the credit. A copy of the other state, city, or county income tax return must be included.

The credit cannot exceed the smaller of the amount of tax imposed by another state or the percentage of Michigan tax due on salaries, wages, and other income earned and taxed in the other state. Credit is not allowed for taxes paid on income subtracted on the MI-1040.

A Michigan resident who earned wages in a reciprocal state may pay a city or county tax in that state. The city or county income tax paid in that state may be claimed for the credit; however, the state income tax paid to the reciprocal state cannot be claimed. Instead, the Michigan resident should claim a refund from the other state.

A Canadian credit is allowed only if provincial tax was paid. The credit shall be allowed for that portion of the provincial tax not claimed as a credit for United States income tax purposes. Credit is **not** allowed on the Michigan return for that portion of provincial tax that is a carryover from a previous year or that is being carried over to a future year on the federal return.

Historic Preservation Income Tax Credit

2020 PA 343, as effective December 30, 2020, restores the State Historic Preservation Tax Credit Program in Michigan. As part of this program, qualified taxpayers may claim a nonrefundable credit equal to 25 percent of qualified expenditures incurred in a rehabilitation project that is approved, completed, and thereafter certified as completed by the State Historic Preservation Office (SHPO) after December 31, 2020, and before January 1, 2031. The procedures for the submission and approval of proposed rehabilitation plans, as well as the subsequent certification of completed rehabilitation projects, is based on rules promulgated by SHPO. For additional information on the implementation and current status of this program, please visit **www.miplace.org/historic-preservation/programs-and-services/historic-preservation-tax-credits/**.

The certification of rehabilitation plans that are eligible for the Historic Preservation Income Tax Credit had previously ended as of January 1, 2012. However, for plans that were approved prior to that date, the nonrefundable credit for that project may still be claimed. Any unused portion of that nonrefundable credit may be carried forward for a maximum of ten years. Taxpayers that have a carryforward of an unused portion of the credit should file *Historic Preservation Tax Credit* (Form 3581) when claiming the credit.

REFUNDABLE CREDITS

Homestead Property Tax Credit (HPTC)

An individual may claim an HPTC if the individual is a resident of Michigan for at least six months of 2024, rents or owns a homestead located in Michigan as their principal residence, and the property is subject to ad valorem property tax or a service fee in lieu of taxes. An individual can have only one principal residence (domicile) at a time and must be the occupant as well as the owner or renter. The maximum credit allowed per claimant cannot exceed $1,800, regardless of the amount of property taxes levied or rent paid. Domicile is the place where a person has their true, fixed, and permanent home and the principal establishment to which they plan to return whenever they go away. Domicile continues until the individual establishes a new permanent home.

An individual may not claim a property tax credit if their THR exceeds $69,700. In addition, if the taxable value of the homestead exceeds $160,700 (excluding vacant farmland classified as agricultural), a property owner may not claim an HPTC. The taxable value cap does not apply to renters.

THR is defined as all **income** received by all persons of a **household** in a tax year while members of a household, increased by the following deductions from federal gross income:

- Net business loss after netting all business income and loss
- Net rental or royalty loss
- Carryback or carryforward of an NOL as defined in IRC 172(b)(2).

A “household” is defined as a claimant and spouse. For additional information about THR, see RAB 2015-18.

An HPTC is reduced when the claimant does not occupy the property for the entire year. If a claimant occupies more than one property during the year, the claimant must prorate the credit claimed. If a claimant dies during a year in which a credit is claimed, the credit must be prorated based upon the number of days that the claimant occupied the property during the year of death.

Senior Claimants. Senior claimants are entitled to a 100 percent credit if their THR is $21,000 or less. The credit is reduced by 4 percent of each additional $1,000 of income once their THR exceeds $21,000. For information about an HPTC for a permanent resident of special housing, see RAB 2017-8.

Senior Credit Reduction

Total Household Resources	Percent of Credit Allowed
$ 0 - $21,000	100%
21,001 - 22,000	96
22,001 - 23,000	92
23,001 - 24,000	88
24,001 - 25,000	84
25,001 - 26,000	80
26,001 - 27,000	76
27,001 - 28,000	72
28,001 - 29,000	68
29,001 - 30,000	64
30,001 - 69,700	60

Senior claimants receive a 60 percent property tax credit for a THR of $30,001 to $60,700. The credit phase out applies once a claimant's THR exceeds $69,700.

Disabled and other special claimants. Claimants who are permanently disabled, paraplegic, hemiplegic, quadriplegic, blind, or deaf will receive a 100 percent credit if household resources are $69,700 or less. The credit phase out applies once THR exceeds $69,700.

General claimants. General claimants receive a 60 percent property tax credit subject to the credit phase out once THR exceeds $60,700.

Credit phase out. All claimants are subject to the credit phase out. The credit is reduced by 10 percent for each $1,000 of THR in excess of $60,700.

HOMESTEAD PROPERTY TAX CREDIT PHASE OUT

Total Household Resources	Percent of Credit Allowed
$ 60,700 or less	100%
60,701 - 61,700	90
61,701 - 62,700	80
62,701 - 63,700	70
63,701 - 64,700	60
64,701 - 65,700	50
65,701 - 66,700	40
66,701 - 67,700	30
67,701 - 68,700	20
68,701 - 69,700	10
69,701 - above	No Credit

Example 1: A senior citizen has a THR of $69,000 and property taxes of $3,500. The property taxes exceed 3.2 percent of THR by $1,292. The senior citizen's THR exceeds $30,000, therefore, the credit is reduced from 100 percent to 60 percent or $775. The phase out applies and will further reduce the $775 credit to 10 percent for a credit of $78.

Example 2: A claimant has a THR of $64,300 and property taxes of $6,000. The property taxes exceed 3.2 percent of THR by $3,942. The credit is first reduced to 60 percent, or $2,365. The credit is then limited to $1,800, the maximum allowed. After the $1,800 limit is applied, the phase out to 60 percent further reduces the credit to $1,080.

Taxable Value. The property taxes on a homestead with taxable value of more than $160,700 may not be included in the calculation of the property tax credit. If the taxable value of a homestead, excluding the taxable value of the unoccupied farmland classified as agricultural, exceeds $160,700, the property taxes may not be included in calculating the property tax credit. The 2024 tax bills received from the homeowner's local government will state the taxable value. The taxable value cap does not apply to renters.

Eligible property taxes. The property taxes **levied** on the homestead for 2024 are the only taxes that can be claimed for credit regardless of when the taxes are paid. These include additional taxes assessed or refunded that are attributable to a prior year because of a Michigan Tax Tribunal decision or the reversal of a homestead affidavit denial. Collection fees of up to 1 percent of the property taxes and special assessments based on state equalized value and applied to the entire taxing jurisdiction may be included. If the special assessment is for police, fire, or advanced life support, the credit may be taken even if the assessment does not cover the entire taxing jurisdiction. However, these special assessments must be based on the taxable value using a uniform millage rate.

Do not include:

- P & I on late payments of property tax
- Delinquent property taxes
- Delinquent water or sewer bills
- Property taxes on cottages or second homes
- Special assessments (for drains, sewers, etc.) that are not based on taxable value and are not applied to the entire taxing jurisdiction
- 2023 winter taxes paid in 2024.

Reporting Taxable Value (TV) on MI-1040CR Homestead Property Tax Credit

The TV of the property must be reported on the MI-1040CR to process property tax credit claims. To avoid possible refund delays, enter the TV on the proper line. Use the following list to determine the correct TV to report in special circumstances.

1. **If the taxpayer moves during the year,** complete the "Homeowners" section showing the TV for each homestead. If there were more than two homesteads during the year, include an additional sheet. Property taxes levied on occupied homesteads having TV greater than $160,700 may not be included in total property taxes claimed to calculate the credit.

2. **If the taxpayer lives in a nursing home and the spouse lives in a homestead,** use both the property taxes for the homestead and the rent (or prorated share of property taxes) for the nursing home to compute the credit (not applicable with married filing separately status).

3. **If the taxpayer's homestead is assessed at the non-homestead rate,** use the actual TV that is being assessed at the non-homestead rate on line 9.

4. **If the taxpayer lives in service fee housing,** leave line 9 blank. A schedule of explanation need not be included.

5. **If a portion of the homestead is rented out or used for business,** show the total homestead TV on line 9. Reduce the property taxes by the greater of 23 percent of the gross rent collected or the amount of property taxes claimed as a business deduction on the U.S. 1040. Show the explanation either on the return or include a schedule.

6. **If the property tax claim includes eligible adjacent and contiguous vacant land,** include on line 9 the sum of the TVs for the homestead and all eligible vacant land.

Special Situations

Farmers

Farmers may include farmland taxes in the property tax credit claim if any of the following conditions apply:

- If agricultural gross receipts are greater than household income, all farmland property taxes including taxes on unoccupied farmland are eligible for the credit. Taxes on farmland that is rented by or leased to another person and is not adjacent or contiguous to taxpayer's home is not eligible for the credit.

- If agricultural gross receipts are less than household income and taxpayer has lived in the home more than ten years, the taxes on the home and the adjacent and contiguous farmland are eligible for the property tax credit.

- If agricultural gross receipts are less than household income and the taxpayer has lived in the home less than ten years, the taxes on the home and five contiguous and adjacent acres of farmland are eligible for the credit.

- If the taxable value of the homestead excluding the taxable value of the unoccupied farmland classified as agricultural exceeds $160,700, the taxpayer is not eligible for the HPTC.

Agricultural Gross Receipts

"Agricultural gross receipts" means income derived from the business of farming. A taxpayer is engaged in the business of farming if they cultivate, operate, or manage a farm for gain or profit, either as owner or tenant. A taxpayer who receives a rental that is based upon farm production is engaged in the business of farming. However, a taxpayer who receives a fixed rental (without reference to production) is engaged in the business of farming only if they participate to a material extent in the operation or management of the farm. (Refer to IRS Reg. 1.175-3.)

The taxpayer has participated to a material extent in the operation or management of the farm if any one of the following tests are met. (Refer to IRS Publication No. 225.)

1. The owner does **three** of the following:

   - Pays, using cash or credit, at least half the direct costs of producing the crops
   - Furnishes at least half the tools, equipment, and livestock used in producing the crops
   - Periodically advises and consults with the tenant
   - Periodically inspects the production activities.

2. The landowner regularly and frequently makes or takes an important part in making management decisions substantially affecting the success of the enterprise.

3. The landowner works 100 hours or more spread over a period of five weeks or more in activities connected with producing the crop.

4. The landowner does things that, considered in their total effect, show that they are significantly and materially involved in the production of farm commodities.

The following decision table may be used to determine the land eligible to be claimed:

Homestead Property Tax Credit. Find the taxpayer column that applies to the particular situation, then see the corresponding row under "Eligible Property" for the amount of eligible property.

Taxpayer:					
Owns farm	Y	Y	Y	Y	Y
Meets gross receipts test (see above)	Y	Y	N	N	N
Lives on farm	Y	N	Less than 10 yrs.	10 yrs. or more	N

Eligible Property:					
All farmland (does not have to be contiguous unless rented to others)*	X	X			
Home plus five acres*+			X		
Home and all contiguous or adjacent unoccupied land*				X	
None					X

* Does not qualify if the taxable value of the residential area excluding the taxable value of the unoccupied farmland classified as agricultural exceeds $154,400.
\+ Renters also qualify under this category.

A "homestead" for the property tax credit excludes "unoccupied real property that is leased or rented by the owner to another person . . ." MCL 206.508(2). The renter or lessor of farmland may not claim the rent paid when computing a property tax credit.

A Farmland Preservation Tax Credit (FPTC) must be included in the THR. It should be reported on the schedule of THR in net farm income or other taxable income. HPTCs are not included in the THR. If the Property Tax Credit was included in taxable farm income, it may be subtracted in determining the THR.

Part-Year or Deceased Taxpayers,
Annualization of THR for Phase Out

A property tax credit claim made by a part-year resident or on behalf of a deceased taxpayer (unless claimed by surviving spouse) requires annualization of the THR to determine if their annualized THR:

1. Exceeds the threshold of $69,700, which phases out a property tax credit, **or**

2. May require a senior citizen or a totally and permanently disabled person to use a higher percentage of THR to determine nonrefundable portion of property taxes.

In the final computation, only the claimant's actual THR is used.

Example 1: A property tax credit is filed on behalf of a **deceased** claimant age 65 with no surviving spouse. THR of $5,230 and two exemptions are reported. Taxpayer owned a home and lived in Michigan for 155 days in 2024. Taxes levied for 2024 were $1,865. The taxable value of the home did not exceed $160,700.

Claimant's annualized THR is 365/155 x $5,230 = $12,316.

Prorated property taxes are 155/365 x $1,865 = $792.

Since annualized THR is over $6,000, 3.2 percent of actual THR must be used when computing the property tax credit.

Prorated property taxes	$792
Less 3.2% of $5,230	167
Property tax credit amount	**$625**

Example 2: A **part-year** Michigan resident who lived in Michigan for 266 days received Michigan THR of $48,900. Total property taxes of $2,400 were levied on the Michigan homestead. The homestead's taxable value did not exceed $160,700.

Claimant's annualized THR is 365/266 x $48,900 = $67,100. The phase out is 10 percent after reaching $60,701 and then 10 percent for every additional $1,000 in THR. The claimant's property tax credit will be reduced by 30 percent.

Prorated property taxes (266/365 x $2,400)	$ 1,749
Less: 3.2% of **actual THR** ($48,900)	1,565
Balance	184
Multiply by 60%	110
Less: Percentage of credit subject to Phase out provision (30% x $110)	-33
Property tax credit	**$ 33**

Separated and Divorced Claimants

Spouses who file separate Michigan income tax returns but share a household are entitled to only one property tax credit. Complete the property tax credit claim jointly, including both spouses' incomes, then divide the credit as desired. If each spouse claims a portion of the credit, include a copy of property tax claim showing the share claimed. Two homesteads may be used for credit only if the couple is separated or divorced, each maintains a separate homestead, and each files separate federal and Michigan income tax returns. If the taxpayers file a joint federal return, they must file a joint Michigan return.

Example: Ron and Rosemary were separated March 1, 2024, and divorced December 2, 2024. Rosemary stayed in the marital home all year, and Ron rented an apartment beginning March 1, 2024. Ron paid Rosemary $300 (half the house payment) from March through December 2023 and 40 weeks of child support at $160 a week. Property tax bills for 2024 on the marital home were $2,850. Ron rented his apartment for $500 a month. Their incomes before and after separation are as follows:

Wages:	**Ron**	**Rosemary**
January 1 - February 28	$ 7,200	$ 5,000
March 1 - December 31	$36,000	$ 25,000

First, calculate the property taxes that can be claimed for credit by each spouse prior to separation.

Income prior to separation:

Rosemary	$5,000
Ron	7,200
Total	$12,200

Percent of income prior to separation:

Rosemary	$5,000/$12,200	=	41%
Ron	$7,200/$12,200	=	59%

2024 taxes prorated for two-month period prior to separation	$2,850 x 2/12	=	$ 475

Percent claimed before separation:

Rosemary	$ 475	x	41%	=	$ 195
Ron	$ 475	x	59%	=	$ 280

Rosemary's total taxes claimed for credit (lived in the family home for the entire year):

Before separation	$ 475	x	41%	=	$ 195
After separation	100%	x	($2,850-$475)	=	2,375
					$2,570

Ron's total taxes claimed for credit:

Before separation	$ 475	x	59%	=	$ 280
After separation - Rent paid	$5,000	x	23%	=	$1,150
					$1,430

Note: Based on the definition of household resources, Ron may not subtract the child support payments of $6,400 from his THR.

Shared Housing

When two or more single people share a home, each can file a credit claim if each is contracted to pay rent or owns a share of the home. Each should file an individual claim based on their own THR and prorated share of the taxes or rent paid. If the home is owned (not rented) the owners would divide the taxable value of the home accordingly and report their portion of the taxable value of the home when filing a credit claim.

Example 1: Adam and Andrew own a home in Grand Rapids. Both occupy the home and share the expenses for upkeep of the home. The property taxes on the home for 2024 are $4,000. Adam and Andrew would each claim $2,000 of property taxes on their respective property tax credits. They would each report one-half the taxable value of the home and write on the form "shared housing" and the percent of property taxes being claimed.

Example 2: Tim owns and occupies his home in Saginaw. He fixed up the basement and rents it for $400 a month to Linda. His PRE is greater than 50 percent. Tim would be eligible to claim a property tax credit on the taxes billed on his home for 2024; however, he would have to reduce property taxes by the greater of 23 percent of the gross rent received or the amount of property tax claimed as a business expense on his federal return.

Example 3: Scott and John rent a home from Renee and both of their names are on the contract. The taxable value of the property exceeds $160,700. Monthly rental of the home was $950; the total paid during 2024 was $11,400. All rent and expenses were split evenly between them. Scott and John would each be eligible to claim a property tax credit on the half of the rent that each paid. Scott and John would be able to claim property tax credits even though the taxable value of the home exceeds $160,700 because the taxable value limit does not apply to renters.

Nursing Home, Home for the Aged, and Adult Foster Care Claimants

A permanent resident of a nursing home, home for the aged, or adult foster care home is entitled to a HPTC based on rent if the facility provides an itemized bill identifying the portion charged for rent and for other services such as food, housekeeping, or personal care. The resident may be required to submit the itemized bill or other documentation from the landlord that shows the amount of rent paid. Only rent paid by the resident can be used to compute the property tax credit.

If the facility bills a lump sum for rent and other services and does not provide an itemized statement identifying the amount of rent, the resident may not claim rent, but may claim their allocable share of the property taxes assessed on the entire facility. The resident's allocable share is calculated by dividing the facility's property tax by the number of licensed beds.

If the facility receives a direct payment from a State or federal agency for the care of the resident, then the allocable share may be limited. The resident cannot claim an allocable share that is greater than the charges paid by the resident to the facility.

Example: Mrs. Redfern's nursing home charges were billed in a lump sum of $12,500 (for rent, food, and other nursing services) to the SOM. Of that sum, $12,000 was paid directly to the nursing home by the State. Mrs. Redfern paid the balance due of $500.

Mrs. Redfern's "allocable share" of property taxes on the nursing home, based on 100 beds and $60,000 in real property taxes, is $600. Since Mrs. Redfern's total charges paid by her are less than her "allocable share," she may use only the lesser amount of $500 for calculating a property tax credit.

Room and Board

If the claimant pays room and board in **separate** billings, the claimant must base the credit on the rent. The claimant may be required to submit a copy of the separate billing or other documentation from the landlord showing the amount of rent paid. If the claimant pays room and board in **one** billing and is unable to identify the portion of the bill that constitutes rent, the credit must be based on a prorated share of the property taxes on the facility. If the landlord does not provide this figure, divide the square footage of the claimant's living space by the total square footage of the facility, and multiply the total taxes on the facility by that percentage.

Service Fee Housing

If the claimant lives in housing on which service fees are paid instead of property taxes, the credit must be computed using 10 percent of the rent, rather than the 23 percent generally used by other claimants who rent.

Subsidized Housing

A claimant who lives in subsidized housing must compute their HPTC based on rent if the facility provides an itemized bill identifying the portion charged for rent, separate from charges for other services such as food, housekeeping, or transportation. Only the amount of rent paid by the claimant can be used to compute the property tax credit. Do not consider amounts paid by a government agency on the claimant's behalf. If the facility pays service fees in lieu of property taxes, compute the credit using 10 percent of the rent paid by the claimant, rather than 23 percent. The claimant may be required to submit a copy of the separate billing or other documentation from the facility verifying the amount of rent paid.

If the facility bills a lump sum for rent and services, the resident may not claim rent, but may claim their allocable share of the property taxes assessed on the entire facility.

Special Housing

A claimant who resides in housing where the lease includes meals and other services (housekeeping, laundry, transportation, etc.) must base their credit on only the portion of the bill that constitutes rent. A senior citizen claimant who can identify the amount of rent separately from other charges may claim their credit using the alternate senior method. A claimant may be required to produce a copy of the facility's documentation that identifies the portion of the bill constituting rent to substantiate the claim.

If the claimant is unable to identify the portion of the bill that constitutes rent, the credit must be based on a prorated share of the property taxes on the facility. The facility should provide the claimant with the prorated share of the property taxes for use in the credit calculation.

Recipients of Department of Health and Human Services (DHHS) Payments and Child Support Payments

MCL 206.520(7) allows recipients of DHHS payments to reduce the amount of DHHS benefits reported to them when the amounts include child support payments assigned by the Friend of the Court (FOC).

The annual statement from DHHS may include child support payments made through the FOC to DHHS. To determine the child support payments included in the statement, obtain a Fourth Quarter Statement from the Office of Child Support. This statement is mailed to all recipients of DHHS payments. The amount reported as support is child support payments sent to DHHS, and the amount reported as rebates paid is direct child support paid to the recipient.

Since the HPTC is prorated based on the percentage of income from DHHS benefits, it is to the recipient's advantage to reduce the annual DHHS benefits received by any child support included in this statement and report them separately in THR. The Fourth Quarter Statement from the Office of Child Support (Form FEN851) and, if available, a copy of the annual statement from DHHS should be included with the claim.

Example 1: A claimant received DHHS benefits of $12,000 in 2024, which included child support payments of $3,000 assigned by the FOC to the DHHS. If the claimant's THR consisted solely of DHHS benefits, they would not be entitled to a HPTC. However, since one-quarter of the total DHHS benefits were from child support payments assigned to DHHS, they are entitled to one-quarter of the HPTC computed.

Example 2: Taxpayer receives the following for 2024:

2024 annual statement from DHHS	$8,165	
Letter from Office of Child Support or FOC:		
Support	$7,492	
Rebates paid	600	

To compute the THR:

Annual statement from DHHS	$8,165	
Rebates paid	+ 600	
	8,765	
Less support paid to DHHS	- 7,492	
Annual DHHS benefits actually received	1,273	(FIP/DHHS line)
Child support	+7,492	(Child Support line)
THR	**$8,765**	

Farmland Preservation Tax Credit

Eligibility

This credit is provided for under the Farmland and Open Space Preservation Act, which is part of the Natural Resources and Environmental Protection Act PA 451 of 1994. The Act replaced the repealed farmland preservation act known as "PA 116." The Act enables a landowner to enter into a development rights agreement (for farmland) with the State. The agreements are designed to ensure the land remains in agricultural use for an agreed-upon period. In return for maintaining the land in agricultural use, the landowner is entitled to certain income or property tax benefits.

The FPTC refunds to farmland owners the taxes in excess of 3.5 percent of their total household income on property covered by a Farmland Development Rights Agreement (FDRA) with the Michigan Department of Agriculture and Rural Development.

Schedule of Taxes and Allocation to Each Agreement (Schedule CR-5) must be completed. Use more than one Schedule CR-5 as needed. The system will not accept a substitute Schedule CR-5 in lieu of the Michigan Schedule CR-5.

Tips to Expedite Processing

- The entire TV for each agreement must be entered on the Schedule CR-5 in the space provided. This is required even if the taxpayer is eligible to claim only a portion of the property taxes because of joint ownership(s), partnership(s), or multiple shareholders. The TV can be found on the property tax statements for each period.

- If farmland is jointly owned with someone other than the filer's spouse, *Signed Distribution Statement for Joint Owners of Farmland Development Rights Agreements* (Form 5678) must be completed. For each agreement, enter the information for each owner. Partners may use Form 5678 to show percentage of income or ownership if no Form 1065 U.S. Return of Partnership Income was required. All partners must sign. The percentage of income or ownership being claimed for credit must be carried to column E of the Schedule CR-5.

- Ownership indicated on property tax statements must also match ownership in farmland development rights agreement(s). If the claimed agreement does not reflect appropriate ownership, the credit may be reduced or denied.

- Multiple names on property tax statements indicate joint ownership. The taxpayer may not claim 100 percent without a signed distribution statement from all other owners. The agreement may be reduced or denied without the signed statement.

- The agreement number (or contract) number is found in the lower-left corner and top of each agreement. Always use the contract number from the most recently recorded agreement. The actual contract number retains its original series throughout the term of the agreement.

Farmland agreement numbers consist of three components:

- **County Code -** indicated by the first two digits of the agreement number.
- **Contract Number** - indicated by the middle set of characters between the county code and expiration date.
- **Expiration Date** - indicated by the last six digits of the agreement number. The first four digits are always "1231." The last two digits are comprised of the year the agreement is to expire (e.g., "123116"). The expiration year may never be earlier than the year of the return being prepared.

- A letter of the alphabet may be added to indicate the agreement was split into multiple agreements. When farmland agreement numbers contain alpha characters, the alpha characters belong after the contract number.
- If the expiration year entered is prior to the current tax return year, the agreement is expired and may no longer be claimed. The taxpayer must extend the agreement and provide the new expiration year before the agreement may be claimed again.
- It may be beneficial to have the taxpayer provide copies of the agreements being claimed for accuracy and to avoid processing delays.
- An MI-1040CR, *Homestead Property Tax Credit Claim for Veterans and Blind People* (MI-1040CR-2), or MI-1040CR-7 must be filed to claim an FPTC even if it results in a zero credit. The schedule of THR provided on these forms is used to verify the total household income used in computing the FPTC.
- Each agreement should only appear on one line of the Schedule CR-5. Multiple parcels for a single farmland development rights agreement must be combined to determine the entire agreement's eligible taxable value and the eligible property taxes.

Only the portion of the tax bill used for agricultural purposes may be claimed for credit regardless of the amount of the parcel enrolled in the program. The qualifying portion of the parcel will be indicated on the property tax statement(s) as an agricultural or homestead percentage. Follow the instructions in the MI-1040CR-5 tax booklet under the "Property Taxes That Can Be Claimed for Credit" section to compute the eligible taxes if the bill indicates less than 100 percent exempt.

Computation of the Value of the Lien Imposed Upon Removal of Land from Farmland and Open Space Program

When property is removed from the Farmland and Open Space Program, the State Land Use Agency records a lien against the property. Land may be relinquished from the program for the following reasons:

1. Natural expiration of the agreement
2. Death or permanent disability of the landowner
3. Landowner requests relinquishment of all or a portion of an agreement.

The lien value may be computed differently based on the reason the land was relinquished. The following discussion outlines the computations required by the different ways the FDRA is relinquished.

1. **Natural termination of agreement**.

   The value of the lien will be the amount of the FPTCs attributable to the terminated agreement received by the owner in the final seven years. The final seven years shall include the year of termination. The value is computed as follows:

   Step 1

   Divide: The ad valorem property tax levied on property subject to the expired FDRA used in determining the FPTC in that year

   By: The property taxes levied on property subject to all FDRAs used in determining the FPTC in that year.

   Step 2

   Multiply: The owner's total FPTC on all agreements paid that year

   By: The quotient in Step 1.

   Step 3

   Sum: The results of Step 2 may or may not be used for each of the last seven years, depending on agreement number and property taxes assessed.

2. **Landowner dies or becomes permanently and totally disabled, and a request has been granted for the release of all property covered by the FDRA.**

   The value of the lien will be the total amount of the FPTC received by the owner for the payback period. The payback period and value of the lien is computed as follows:

   Payback Period

   Step 1

   Divide: The number of years the land was enrolled in the current FDRA

   By: The number of years for which the agreement was written.

   Step 2

   Multiply: Seven years

   By: The quotient computed in Step 1.

Value of the Lien

Step 1

Divide: The ad valorem property tax levied on property subject to the FDRA being relinquished used in determining the FPTC

By: The property taxes levied on property subject to all FDRAs used in determining the FPTC in that year.

Step 2

Multiply: The owner's total FPTC on all agreements claimed that year

By: The quotient computed in Step 1.

3. **Landowner dies or becomes permanently and totally disabled, and a request has been granted for the release of a portion of land covered by the FDRA.**

The value of the lien will be the total amount of the FPTC received by the owner for the payback period. The payback period and value of the lien is computed as follows:

Payback Period

Step 1

Divide: The number of years the land was enrolled in the current FDRA

By: The number of years for which the agreement was written.

Step 2

Multiply: Seven years

By: The quotient computed in Step 1.

Allocated Credit of Entire Agreement

Step 1

Divide: The ad valorem property tax levied in that year on property subject to the FDRA that included the property to be removed

By: The total property taxes levied on property subject to all FDRAs used in determining the FPTC in that year.

Step 2

Multiply: The owner's total FPTC in that year on all agreements

By: The quotient in Step 1.

Value of the Lien

Step 1

Divide: The TV of the property being relinquished from the agreement

By: The total TV of the property subject to the FDRA that included the property being removed from the agreement.

Step 2

Multiply: The "allocated tax credit" of entire agreement

By: The quotient computed in Step 1.

4. **Landowner requests relinquishment of all or a portion of an agreement as provided by Section 36111(a) and 36111(2)(a)(b).**

Termination of All Land Covered by an FDRA

Step 1

Divide: The ad valorem property tax levied on property subject to the FDRA to be relinquished used in determining the FPTC in that year

By: The property taxes levied on property subject to all FDRAs used in determining the FPTC in that year.

Step 2

Multiply: The owner's total FPTC on all agreements paid that year

By: The quotient in Step 1.

Step 3

Sum: The results of Step 2 plus 6 percent per annum interest for each of the last seven years.

Termination of a Portion of Land Covered by an FDRA

Step 1

Divide: The ad valorem property tax levied in that year on property subject to the FDRA that included the portion to be relinquished

By: The total property taxes levied on property subject to all FDRAs used in determining the FPTC in that year.

Step 2

Multiply: The owner's total FPTC in that year on all agreements

By: The quotient in Step 1. This is the "allocated tax credit."

Value of the Lien

Step 1

Divide: The TV of the property being released from the agreement

By: The total TV of the property subject to the FDRA that included the property being released from the agreement.

Step 2

Multiply: The "allocated tax credit" for the agreement

By: The quotient computed in Step 1.

Step 3

Sum: The results of Steps 1 and 2 plus 6 percent per annum interest for each of the last seven years.

Sale of Land

From January 1 to the day of closing, the seller (and conceivably their predecessor(s) in title) is the owner of the farmland.

For the period from January 1 to the day of closing, the seller is the person responsible for the ad valorem taxes. For income tax purposes, the IRS concludes the seller, not the buyer, pays the taxes (if the taxes are paid).

The buyer is the owner of the farmland and is responsible for the payment of taxes (if paid) from the period of the "closing day" to December 31.

Based on the above, each owner is entitled to claim the credit for that portion of the calendar year they held title to the farmland.

Reinstatement of a Development Rights Agreement

If there is a lapse of time between the expiration and reinstatement of an agreement, the landowner is not eligible to claim an FPTC for the time the agreement had expired. The lien, which is recorded when an agreement is terminated, is discharged upon reinstatement of the development rights agreement. A subsequent lien will not be less than the lien discharged due to reinstatement.

Farmland Preservation Tax Credit When Land Is Inherited

The taxpayer who inherited the land is not eligible for the credit until they are the owner of record and the FDRA is transferred to them by the State Land Use Agency.

Taxable Portion of Farmland Preservation Tax Credit

Taxable income for Michigan income tax purposes is defined in ITA, MCL 206.30(1), as AGI, as determined in the IRC, subject to certain adjustments. To the extent that an FPTC is includable in an individual's AGI, this income is taxable to the State. There is no statutory provision to exclude this income from the computation of Michigan taxable income.

Income is defined in Michigan's ITA, MCL 206.510(1) as the sum of federal AGI, as established in the IRC, plus all income specifically excluded or exempt from the computation of the federal AGI.

Income does not include payments or credits under MCL 206.510(1). An FPTC is provided for in the Farmland and Open Space Preservation Act, **not the ITA.**

The part of the HPTC that applies to farm buildings and land is business related. To determine the portion that is business income, multiply the credit by the percentage that the TV of the buildings and land is to the total TV of the property.

The local assessor can provide a breakdown showing how total TV was determined.

TV of Farmland Portion of Homestead and Buildings / Total TV	x	Homestead Property Credit Amounts Received This Year	=	Property Tax Credit That Is Business Income

The FPTC amount and the business portion of the HPTC received during the year must be included in taxable income.

If the MI-1040 tax refund was greater than the amount of FPTC plus the business portion of the HPTC, subtract the excess refund amount received during the year to the extent it was included in federal AGI.

Including Property Tax Statement(s) When Claiming an MI-1040CR-5

For All E-Filers: Indicate in the space provided on Schedule CR-5 if the property taxes are paid for the year of the return or for the immediately preceding year. No property tax statements are required at this time, but they may be requested if necessary to complete the processing of the return. Some e-file products allow the taxpayer to include images of property tax statements, which may reduce correspondence with Treasury and expedite the processing of the return. Keep the statements with the tax records, as there may be a need for Treasury to request them.

For All Paper Filers: Indicate in the space provided on Schedule CR-5 if the property taxes are paid for the year of the return or for the immediately preceding year. Property tax statements for the year of the return **must** be included. These statements must include the TV, property taxes levied by millage rate, and the corresponding agreement number(s). If the tax statements do not indicate payment of property taxes and the "Paid" box is checked on the Schedule CR-5, a copy of the previous year's property tax receipt(s) indicating payment is also required.

The "Paid" box is checked if the property taxes are paid for either the year of the return or for the immediately preceding year. If the box is not checked, it will be assumed the property taxes are not paid. This will result in the FPTC being issued jointly payable to the taxpayer and the appropriate county treasurer.

Farmland Taxes Eligibility Chart

The following chart describes who may claim the FPTC and what taxes are to be used in computing the farmland credit based on ownership of the land.

Type of Ownership	Taxes Based On	Must Include	Effective Date
Partnership	1. Percent of income or ownership, or 2. Statement signed by all partners listing allowable percent for each partner	1. Federal 1065 and K-1, or 2. Partnership agreement, or 3. Signed statement, or 4. Completed Form 5678 Signed Distribution Statement for Joint Owners	1/1/84
S Corporation	1. Percent of stock ownership	1. Federal 1120S and Schedule K-1	1/1/88
Joint (Other Than Spouse)	1. Equal apportionment among owners, or 2. Statements signed by owners apportioning taxes the same way the revenues and expenses are divided	1. Signed statement, or 2. Completed Form 5678 Signed Distribution Statement for Joint Owners	1/1/84
Life Estate or Life Lease	1. Possession, or apportionment between owner and life estate holder	1. Signed statement, or 2. Completed Form 5678 Signed Distribution Statement for Joint Owners, or 3. Copy of Life Lease Agreement	1/1/86
Grantor Trust	1. Ownership (if treated as an owner under IRC 671 through 679)	1. Portion of trust that shows owner	1/1/84
Trust Created by Death of Spouse	1. Ownership (if the trust requires 100 percent of the income to be	1. Portion of trust that shows owner, or the deed	1/1/84

Type of Ownership	Taxes Based On	Must Include	Effective Date
	distributed each year to the surviving spouse)		
Limited Liability Company	1. Based on member's share of ownership or distributive share of ordinary income as reported by the company to IRS	1. Limited liability company's federal return and Schedule K-1s	1/1/96

Repayments Under the Claim of Right Doctrine

Section 265 of the ITA allows taxpayers to claim a credit against the Michigan income tax equal to the amount of tax paid on amounts included in taxable income in a prior tax year and repaid in the current tax year.

The credit is allowed on amounts that qualify under IRC 1341 and are not deducted in arriving at federal AGI for the tax year.

Example: Included in Roy's 2023 AGI was $18,000 in Supplemental Unemployment Benefits (SUB pay) from ABC, Inc. In 2024, Roy repaid the $18,000, as it was determined he did not have the right to receive the SUB pay. The 2024 repayment qualified under IRC 1341 and was taken as an itemized deduction by Roy on his 2024 federal Schedule A. For the 2024 tax year, Roy is allowed a $729 ($18,000 x .0405) credit against his Michigan income tax. Calculate the credit using the tax rate in effect for the year the amount was included in Michigan taxable income (4.05 percent), not the rate (4.25 percent) in effect for 2024, the year of the repayment. Report the credit on the line for reporting withholding taxes. Write "Claim of Right/Repayment" next to the withholding line. Include a copy of Roy's federal Form 1040 pages 1 and 2, Schedule A, Schedule 5 and documentation of the repayment, and a calculation showing how the credit was determined on his 2024 MI-1040.

Earned Income Tax Credit

For 2024, a taxpayer may claim a refundable credit against the income tax for an amount equal to 30 percent of the credit the taxpayer is allowed to claim under IRC 32 (i.e., the Earned Income Tax Credit (EITC)) for a tax year on a return filed under the act for the same year.

Home Heating Credit

PA 335 of 2004 amended Section 527(a) of the ITA allowing Treasury to establish a program for direct payments of energy drafts to enrolled heating providers. If a claimant's name has been submitted by the provider (e.g., Consumers Energy, DTE Energy Natural Gas Company, or SEMCO Energy Gas Company) and meets the requirements established by Treasury, the energy draft will be paid directly to the provider.

PA 169 of 2001 allows a Home Heating Credit (HHC) only if there has been a federal appropriation for the federal fiscal year beginning in the tax year for federal low-income home energy assistance program block grant funds of any amount. Also, under PA 169 of 2001, no portion of the credit allowed shall be applied as an offset to any liability of the claimant.

The HHC form MI-1040CR-7 **must be filed and postmarked no later than September 30** of the following year. The amount of the credit may be prorated depending on the amount of federal funds appropriated.

An eligible claimant for a heating credit is defined as a renter or owner of a home. The claimant's income must be within the income limits listed on the eligibility charts in the MI-1040CR-7 instruction booklet. An ineligible claimant is a person who lives in a home and does not pay rent or is not an owner. The standard allowance of heating costs is prorated for eligible claimants if the home is occupied by ineligible claimants. Ineligible claimants include:

1. Full-time students claimed as dependents by another person

2. Residents of a congregate care facility (i.e., nursing home, adult foster care home, home for the aged, substance abuse center, etc.) who resided in the care facility for the entire year.

For individuals who rent their homestead, if, at the time of filing, their heating costs are included in their rent, the credit must be reduced by 50 percent.

Example: A Michigan resident whose heat is included in their rent claimed a 2024 HHC. Two federal exemptions were reported. The claimant's THR of $7,475 included wages of $3,025, DHHS benefits of $1,500, and child support of $2,950. The claimant may claim an HHC of $263.

To compute the HHC:

Standard allowance	$788	
Less THR multiplied by 3.5%	- 262	
Standard credit	**526**	
Renters reduce credit by 50%	- 263	
Home Heating Credit	**$263**	(subject to possible proration)

When two or more taxpayers who are not married to each other share a home, each can claim an HHC if each has contracted to pay rent or owns a share of the house. If they share a home but are not the owners or have not contracted to pay rent, then they cannot claim an HHC.

To claim a credit, each eligible claimant should file an HHC based on their THR and their share of the standard allowance. The standard allowance is determined from Table A in the MI-1040CR-7 instruction booklet by adding the personal exemptions of all the claimants sharing the home.

Example 1: Two women share an apartment. Each person has signed a lease and pays one-half of the rent in 2024. The standard allowance for two exemptions is $788. Each person must use a standard allowance of $394 ($788/2 = $394) to compute the credit.

If one of the individuals sharing the home is eligible for a special exemption or a dependent exemption, then she would compute her credit as follows:

The standard allowance as computed above is $394. Then add the difference between the standard allowance for three ($995) and the standard allowance for two ($788) to $394 ($995- $788 = $207 + $394 = $601). $601 is the standard allowance for the individual with the dependent exemption.

Part-year residents must prorate the standard allowance based on the number of days they were a Michigan resident. Claimants filing on behalf of deceased individuals must prorate the standard allowance based on the date of death. The decedent is not eligible for the alternate credit computation if they died during the tax year.

Example 2: An HHC* claim is filed by a **part-year** Michigan resident who resided in Michigan for 198 days. The claim is based on Michigan THR of $3,600 and one exemption.

Prorated standard allowance (198/365 x $581)	$315
Less: 3.5% of actual THR ($3,600)	- 126
Home Heating Credit	**$189** (subject to possible proration)

*No annualizing of THR is required when computing an HHC.

Flow-Through Entity (FTE) Tax Credit

Direct and indirect owners of a flow-through entity that elect to pay the FTE tax are eligible to claim a refundable income tax credit on their Michigan income tax return. The credit is generally based on the member's share of total FTE taxes levied and paid by that direct or indirect electing flow-through entity. For more information on computing and claiming the refundable FTE tax credit, visit the Department's website at: **www.michigan.gov/taxes/business-taxes/flowthrough-entity-tax**.

CANCELLATION OF DEBT

Any income arising from cancellation of debt included in federal AGI is subject to Michigan income tax. In most cases, income resulting from the cancellation of debt must also be included in THR. For detailed guidance regarding cancellation of debt income required to be reported on the Michigan tax return, visit **www.michigan.gov/taxes**.

RELIEF FROM TAX LIABILITY

Non-obligated Spouse Allocation

Spouses may apportion a joint refund as though they had filed separate returns when one spouse has a liability. A non-obligated spouse's share of the refund will not, under certain conditions, be used to offset an obligated spouse's debt.

A non-obligated spouse may obtain their share of the refund by completing and filing *Income Allocation for Non-Obligated Spouse* (Form 743). Form 743 is used to determine an overpayment based on separate reporting of income, credits, and exemptions. **Form 743 is issued after the processing of the income tax return and CANNOT be obtained in advance.** The non-obligated spouse must follow the instructions related to the completion and filing of Form 743 to obtain their share of the refund.

Relief from Joint and Several Liability on Joint Returns

Innocent spouse relief, separation of liability, and equitable relief may be granted by Treasury for the portion of the tax liability that is attributable to the understatement of tax or the underpayment of tax. Guidance related to relief from joint and several liability can be found within RAB 2000-9 Relief from Joint and Several Liability on Joint Returns.

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 IIT:

- U.S. Government Bonds
- U.S. Government Certificates
- U.S. Saving Bonds - Series EE, HH, and I
- 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
Home Owner's Loan Corp.
Joint Stock Land Banks
Maritime Administration
Production Credit Association
Small Business Administration
Student Loan Marketing Association
Tennessee Valley Authority (bonds only)
U.S. Housing Authority
U.S. Maritime Commission
U.S. Possessions (obligations Puerto Rico, Virgin Islands, Guam, American Samoa, and Northern Marina Islands)
U.S. Postal Service (bonds)

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

Armed Services Housing Mortgage Insurance
Mutual Mortgage Insurance Fund
National Defense Housing Insurance
Rental Housing Insurance
Rental Housing Mortgage Insurance
War Housing Insurance Fund

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 is organization debt that is taxable:

Building and Loan Associations (Thrifts)
Credit Union Share Accounts
Export-Import Bank of Washington, D.C.
Federal Home Loan Mortgage Corporation (Freddie Mac) mortgages and other securities
Federal Housing Administration
Federal National Mortgage Association (Fannie Mae) participation and other instruments (debentures, notes, and participation certificates)
Federal Savings and Loan Associations
Government National Mortgage Association (Ginnie Mae) (debentures, notes, and participation certificates)
International Bank for Reconstruction and Development (World Bank)
Philippine Bonds
Rural Development Insurance Fund
U.S. Government Insured Merchant Marine Bonds

Other obligations that are taxable:

- Debentures issued to mortgages or mortgages foreclosed under the provisions of the National Housing Act
- Federal Home Loan Time deposits
- 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 that income loses 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
- Repurchase agreements
- U.S. Postal Service Certificates and savings deposits

For additional information, refer to RAB 2020-22 Part 1: Income Tax – Tax Exempt Status of Income from United States Obligations for Individuals and Fiduciaries.

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. Some types of income may be covered in more detail in Treasury's most current RABs available on the "Reports and Legal Resources" page on Treasury's website.

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 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 2. Interest portion	 State of residence when received. 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 loss (Schedule E) 2. All other business income or loss 3. Nonbusiness income or loss	 State where business activity takes place. State where business activity takes place. State of residence.
Capital gain or loss (Schedule D or *Proof of Retrofitting Completion* (Form 4797)): 1. Intangible personal property such as stocks, bonds, commodities, futures, etc. 2. Section 1231 3. Real property	 State of residence unless business income. State where property is located unless business income. State where real property is located unless business income.
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 2. Real property (includes royalties for minerals that came from real property such as oil and coal)	 Michigan if used in this state, or if a resident and not taxable in the state where property is used. 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 for all divorce or separation agreements executed prior to January 1, 2019	Y	Y	Y
Alimony received for all divorce or separation agreements executed after December 31, 2018	N	N	N
Awards, prizes (amount 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 nonferrous 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 nonferrous metallic minerals extraction subject to severance tax	Y	N	Y*
Capital gains:			
100% taxable	Y	Y	Y
Note: Senior citizens born before 1946 may subtract interest, dividends, and 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

* 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: FPTC 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
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
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 HPTC	Y	Y	N
FPTCs	Y	Y	Y
Foreign earned income exclusion	N	N	Y
Foster care payments	N	N	Y
Gambling:			
Winnings (amount in excess of $300 for THR)	Y	Y	Y
Losses:			
Professional gamblers (Net losses)	Y	Y	N*
All others (Session netting permitted)	N	Y**	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: FPTC 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.)

** Deduction limited to wagering losses claimed as an itemized deduction on the federal income tax return for the same period. For nonresidents, only wagering losses attributable to wagering transactions placed at or through a casino or licensed race meeting located in this state may be deducted.

Income Items	AGI	Michigan Taxable Income	THR
Gifts cash:			
First $300	N	N	N
Excess over $300	N	N	Y
Government grant for home repair or improvement	N	N	N
Government payments made directly to educational institutions or housing projects	N	N	N
Health, life (unless benefits exceed $50,000), and accident insurance premiums paid by employer	N	N	N
Homestead property tax credits	Y	Y	N
Housing allowance for clergy	N	N	Y
Inheritance bequest or devise from:			
Nonspouse	N	N	Y
Spouse	N	N	N
Interest received on:			
Banking, savings and loan assoc., etc., accounts	Y	Y	Y
Insurance dividends	Y	Y	Y
Land contracts	Y	Y	Y
Money market and savings certificates	Y	Y	Y
Municipal bonds issued by another state	N	Y	Y
Municipal bonds issued by Michigan	N	N	Y
Tax refunds	Y	Y	Y
U.S. Obligations (only specific agencies exempt)	Y	N	Y
Interest taxable to Michigan (see **Note** under "Capital gains")			
Life insurance proceeds paid to:			
Nonspouse	N	N	Y
Spouse	N	N	N
Life insurance cash in amount in excess of premiums	Y	Y	Y
Living expenses of claimant paid by another person	N	N	Y
Loans received or paid	N	N	N
Long-term disability payments received (if all or part of premium paid by employer)	Y	Y	Y
Lottery:			
100% taxable (amount in excess of $300 for THR)	Y	Y	Y
Installment winners of Michigan lottery who won prior to 12-30-88	Y	N	Y
Lump sum distribution included in 10-year averaging (for individuals born before 1936)	N	N	Y

Income Items	AGI	Michigan Taxable Income	THR
Medicare payments	N	N	N
Military wages or retirements			
Combat pay not excluded from taxable on federal return	Y	N	Y
Combat pay excluded from taxable on federal return	N	N	Y
Moving expenses, reimbursement:			
Moving into Michigan	Y	Y	Y
Moving out of Michigan	Y	N	N
Net operating loss deduction (the NOL is allowed in household income when computing the FPTC)	Y	Y	N
Partnership income or loss:			
In Michigan (except income and related expenses from oil and gas royalties and nonferrous metallic minerals extraction subject to Michigan severance tax)	Y	Y	Y*
From another state and/or income and related expenses from oil and gas royalties and nonferrous metallic minerals extraction subject to Michigan severance tax	Y	N	Y*
Paycheck Protection Plan (PPP) Loans forgiven	N	N	Y
Pension and retirement benefits for persons born after 1945	Y	Y/N	Y
Private pensions (e.g., qualified annuity plans) up to amount allowed as subtraction for claimed year for persons born before 1946	Y	N**	Y
Private pensions or qualified annuity plans in excess of amount allowed as subtraction for claimed year for persons born before 1946	Y	Y	Y
Public pensions (federal, state, or municipal governments) for persons born before 1946	Y	N	Y
Public assistance payments from MDHHS			
FIP paid to grandparents for care of grandchildren	N	N	Y
FIP paid to parents for care of children	N	N	Y
Public health officer's income:			
Michigan resident	Y	Y	Y
Nonresident	Y	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: FPTC 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.)

** This subtraction is adjusted by the percentage increase in the U.S. Consumer Price Index for the preceding calendar year. (See the MI 1040 instruction book for the year being reviewed.)

Income Items	AGI	Michigan Taxable Income	THR
Railroad sick pay	Y	N	Y
Railroad Tier 1 retirement benefits:			
Taxable amount for persons born before 1946	Y	N	Y
Nontaxable portion	N	N	Y
Railroad Tier 2 retirement benefits for persons born before 1946	Y	N	Y
Railroad unemployment benefits	Y	N	Y
Refunds - Michigan state and local income tax	Y	N	N
Relief in kind	N	N	N
Rents and royalties income or loss:			
In Michigan (except income and related expenses from oil and gas royalties and nonferrous metallic minerals extraction subject to Michigan severance tax)	Y	Y	Y
From another state and/or income and related expenses from oil and gas royalties and nonferrous metallic minerals extraction subject to Michigan severance tax	Y	N	Y
Note: All rent and royalty 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.			
Retirement benefits (see Private and Public Pensions)	Y	Y/N	Y
S corporation business activity:			
In Michigan (except income and related expenses from oil and gas royalties and nonferrous metallic minerals extraction subject to Michigan severance tax)	Y	Y	Y*
In another state and/or income and related expenses from oil and gas royalties and nonferrous metallic minerals extraction subject to Michigan severance tax	Y	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: FPTC 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
Scholarships, stipends, education grants, GI bill benefits	N	N	Y
Note: Scholarships must be received and used for qualified tuition and related expenses such as fees, books, supplies, and equipment required for courses of instruction at a qualified organization.			
Scholarships or grants received and used for nonqualified expenses that are included in federal AGI such as room and board	Y	Y	Y
Severance pay	Y	Y	Y
Sick pay other than railroad sick pay	Y	Y	Y
Social Security benefits:			
Taxable amount	Y	N	Y
Nontaxable portion	N	N	Y
Stimulus Payments	N	N	N
Stipends received for benefit of grantor (interns, resident doctors)	Y	Y	Y
Strike pay	Y	Y	Y
Supplemental gain (Form 4797)	Y	Y	Y
Supplemental unemployment benefits	Y	Y	Y
Surplus foods	N	N	N
Unemployment compensation (taxable portion)	Y	Y	Y
Note: For tax year 2020 only, federal law excludes from gross income up to $10,200 per person for unemployment compensation received by individuals under certain income thresholds.	N	N	Y
Unemployment compensation from railroad	N	N	Y
Vacation allowance	Y	Y	Y
Veterans Administration benefits	N	N	Y
Wages, salaries, tips	Y	Y	Y
Workers' compensation	N	N	Y

Deductible Items	AGI	Michigan Taxable Income	THR
Alimony paid under a divorce or separation agreement executed prior to January 1, 2019	Y	Y	Y
Alimony paid under a divorce or separation agreement executed prior to December 31, 2018	N	N	N
Capital losses:			
Short-term, maximum $3,000 (THR, maximum $3,000)	Y	Y	Y
Long-term, maximum $3,000 (THR, maximum $3,000)	Y	Y	Y
Casualty loss:			
Claimed as itemized deduction	N	N	N
Claimed as business deduction	Y	Y	Y
"Claim of Right" (repayment of items previously included in income) taken as:			
Itemized deduction (taken as Michigan credit)	N	N	N
Federal tax credit (taken as Michigan credit)	N	N	N
Deduction reflected in AGI	Y	Y	Y
Health and accident insurance paid by taxpayer for self and family (not including pre-tax payroll deductions)	N	N	Y
IRA or Keogh, payments to	Y	Y	Y
Moving expenses:			
Moving to Michigan	Y	Y	Y
Moving out of Michigan	Y	N	N
Penalty on early withdrawal of savings	Y	N	Y
Self-employment tax deduction	Y	N	Y
Venture capital deduction	Y	N	N

MICHIGAN CITIES LEVYING AN INCOME TAX

The following Michigan cities levy an income tax of **1 percent** on residents and **0.5 percent** on nonresidents except those cities where rates are indicated:

Albion	Hudson
Battle Creek	Ionia
Benton Harbor	Jackson
Big Rapids	Lansing
Detroit (2.4% on residents, 1.2% on nonresidents)	Lapeer
East Lansing (effective January 1, 2019)	Muskegon
Flint	Muskegon Heights
Grand Rapids (1.5% on residents, 0.75% on nonresidents)	Pontiac
Grayling	Port Huron
Hamtramck	Portland
Highland Park (2% on residents, 1% on nonresidents)	Saginaw (1.5% on residents, 0.75% on nonresidents)
	Springfield
	Walker