

# 2023 Michigan Income Tax Withholding Guide

**Withholding Rate: 4.25% Personal Exemption Amount: \$5,400**

## INCOME TAX WITHHOLDING:

Every Michigan employer required to withhold federal income tax under the Internal Revenue Code must be registered for and withhold Michigan income tax. Nonprofit organizations that are exempt from income tax, such as charitable, religious and governmental organizations, must withhold tax from compensation paid to their employees. Employers located outside Michigan that have employees who work in Michigan must register and withhold Michigan income tax from all employees working in Michigan.

Companies that pay pension and retirement benefits are required to withhold Michigan income taxes on taxable payments to retirees. In general, payers must withhold 4.25 percent on all distributions that are subject to Michigan income tax, unless the payer receives a withholding certificate from a retiree that directs otherwise. Pension and retirement benefits generally include payments made from a pension, individual retirement account, annuity, or profit-sharing, stock bonus or certain other deferred compensation plan. Also included are annuity payments or endowment or life insurance contract payments issued by a life insurance company.

Additional withholding information, including the current personal exemption amount, withholding tax rates, and income tax withholding tables, is available on the Michigan Department of Treasury (Treasury) website at [www.michigan.gov/withholding](http://www.michigan.gov/withholding).

## IMPORTANT INFORMATION

**Withholding Tables on the Web.** Withholding rate tables are not provided in this publication, but are available on Treasury's website [www.michigan.gov/withholding](http://www.michigan.gov/withholding).

### Who Must Withhold?

Every employer in this state required under the Internal Revenue Code (IRC) to withhold federal income tax on compensation of an individual must also withhold Michigan income tax. In addition, payers of pension and retirement benefits subject to Michigan income tax must withhold on the taxable amount. Withholding may also be required by eligible production companies, and casino, race meeting, and track licensees, which should use this guide. See MCL 206.703 for more information on those requirements.

### Who Is an Employer?

An employer is defined in *IRS Publication 15, Employer's Tax Guide (Circular E)*, as any person or organization for whom an individual performs any service as an employee. This includes any person or organization paying compensation to a former employee after termination of his or her employment.

Nonprofit organizations that are exempt from income tax, such as charitable, religious, and government organizations, must withhold tax from compensation paid to their employees.

Employers located outside Michigan who have employees working in Michigan must register with Treasury and withhold Michigan income tax from all employees working in Michigan. This applies to both Michigan residents and nonresidents (see page 4, "**Reciprocal Agreements**").

Employers located in Michigan assigning a Michigan resident employee to work temporarily in another state must withhold Michigan income tax from compensation paid to the employee for work done in another state.

### Who Is an Employee?

An employee is an individual who performs services for an employer who controls what will be done and how it will be done. It does not matter that the employer permits the employee considerable discretion and freedom of action, as long as the employer has the legal right to control both the

method and the result of the services.

For further clarification of the term "employee," see the *IRS Publication 15, Employer's Tax Guide (Circular E)*.

## Compensation

The term "compensation," as used in this guide, covers all types of employee compensation, including salaries, wages, vacation allowances, bonuses, and commissions (as defined in the *IRS Publication 15, Employer's Tax Guide (Circular E)*, "Taxable Wages").

## Pension and Retirement Benefits

Under Michigan law, qualifying pension and retirement benefits include most payments that are reported on a 1099-R for federal tax purposes and included in the retiree's federal adjusted gross income. This includes defined benefit pensions, IRA distributions, and most payments from defined contribution plans. Payments received before the recipient could retire under the provisions of the plan or benefits from 401(k), 457, or 403(b) plans attributable to employee contributions alone are not qualifying pension and retirement benefits under Michigan law and are subject to withholding. For additional information on pension and retirement benefits, visit [www.michigan.gov/withholding](http://www.michigan.gov/withholding).

## Which Benefits are Taxable

Pension and retirement benefits are taxed differently depending on the age of the recipient. For married couples that file a joint Michigan income tax return, age is determined using the age of the older spouse. Military pensions, Social Security benefits and railroad retirement benefits continue to be exempt from tax.

Those born before 1946 may subtract all qualifying pension and retirement benefits received from public sources, and may subtract qualifying private pension and retirement benefits up to \$56,961 if single or married filing separately, or \$113,922 if married and filing a joint return. Withholding will only be necessary on taxable pension payments that are not qualifying pension and retirement benefits (see page 1, "**Pension and Retirement Benefits**") and qualifying private pension distributions that exceed the pension limits stated above for recipients born before 1946.

Recipients born between January 1, 1946 through December 31, 1952 are eligible for the Michigan standard deduction in lieu of a deduction for pension and retirement benefits. The pension withholding tables may be used to incorporate the benefit of the standard deduction and generate the appropriate withholding for recipients born in 1946-1952.

Recipients who receive pension benefits from employment with a governmental entity that was exempt from the federal Social Security Act are entitled to larger deductions. More information for plan administrators paying benefits from employment that was exempt from Social Security is available on the Treasury Website.

For recipients born after 1952, all pension and retirement benefits are generally taxable and subject to withholding.

Recipients born after 1952, who received benefits from employment with a governmental entity exempt under the Social Security Act, and who have reached age 62 may deduct up to \$15,000 in qualifying retirement and pension benefits. Form 4927-SSA for those born after 1952 incorporates the exempt amount for withholding.

Recipients born after 1952, received retirement benefits from employment with a government entity exempt under the Social Security Act, and were retired as of January 1, 2013 are eligible for additional deduction limits. The first \$35,000 for single filers or \$55,000 for joint filers of all retirement benefits may be subtracted from Michigan taxable income. Refer to Form 4927-SSA.

Taxpayers born during 1953 through 1955 may choose to deduct either (1) the personal exemption amount and taxable Social Security benefits, military compensation (including retirement benefits), Michigan National Guard retirement benefits and railroad retirement benefits included in AGI, or (2) a deduction against all income of \$20,000 if single, or \$40,000 if filing a joint return. Taxpayers born during 1953 or 1954 can use Form 4924 and Form 5712 to determine the correct amount of withholding and/or estimated tax. To ensure the correct amount is paid, taxpayers may want to consult a tax advisor.

### **How Much to Withhold**

**Employer Income Tax Withholding.** Determine the amount of tax withheld using a direct percentage computation or the withholding tables provided on Treasury's website at [www.michigan.gov/withholding](http://www.michigan.gov/withholding). The withholding rate is 4.25 percent of compensation after deducting the personal and dependency exemption allowance.

**Pension and Retirement Benefits Withholding.** The withholding rate is 4.25 percent after deducting the personal exemption allowance claimed on the MI W-4P. Use the applicable monthly withholding table from either the Pension Withholding Tables for those born in 1946 through 1952 or the Michigan Income Tax Withholding Tables (Form 446-T) to calculate the appropriate withholding. Pension administrators should follow the directions from recipients on any MI W-4P received.

For recipients born during the period 1946 and 1952, the Pension Withholding Tables incorporate the deductions of \$20,000 for single or married filing separately, and \$40,000 for married and filing a joint return, assuming benefits are paid

monthly. If benefits are paid other than monthly, withholding is only due on the amount that exceeds the recipients' deduction amount. Recipients who indicate on the MI W-4P they are married (withhold as single) should have withholding computed as if they are single.

If you received a MI W-4P from a recipient who has checked box 3, determine the amount of tax withheld using the direct percentage computation or the Pension Withholding Tables. If you prefer to compute withholding directly, refer to the Withholding Formula that follows.

Monthly Non-Taxable Deduction Amounts for those Born During the Period 1946 and 1952:

Single standard deduction.....	\$1,666.67
Married standard deduction .....	\$3,333.33
Personal exemption allowance.....	\$450.00

Withholding Formula. Withholding = [Pension or Retirement Payment subject to federal income tax – Monthly standard deduction – (Allowance per Exemption x Number of Exemptions)] x 4.25%

**Example 1:** A single retiree age 70 (born in 1952) receiving \$2,500/month with 1 exemption would have the following withholding:

$$[\$2,500 - \$1,666.67 - (\$450.00 \times 1)] \times 4.25\% = (\$2,500 - \$1,666.67 - \$450.00) \times 4.25\% = \$16.29$$

**Example 2:** A married retiree age 72 (born in 1950) receiving \$4,500/month with 2 exemptions would have the following withholding:

$$[\$4,500 - \$3,333.33 - (\$450.00 \times 2)] \times 4.25\% = [\$4,500 - \$3,333.33 - \$900.00] \times 4.25\% = \$11.33$$

For further information and examples, go to Treasury's website at [www.michigan.gov/taxes](http://www.michigan.gov/taxes).

In the absence of an MI W-4P, pension administrators shall do one of the following:

- (1) Do not withhold on benefits paid to recipients born before 1946 unless the benefits exceed private pension limits.
- (2) If the recipient was born in 1946 or after, withhold on all taxable pension distributions at 4.25 percent.

### **Other Withholding**

**Withholding on Nonresident Gambling and Charitable Gaming Winnings.** Michigan withholding is required on all reportable winnings by nonresidents at Michigan casinos, racetracks, or off-track betting facilities. Reportable winnings are those winnings required to be reported to the Internal Revenue Service (IRS) under the IRC. To calculate Michigan withholding, multiply the amount of reportable winnings by 4.25 percent. Include the amount withheld on the recipient's Form W-2G.

Michigan withholding is required on winnings from charitable gaming if federal withholding is required. Charitable gaming licensees required to withhold Michigan income tax will need to register for withholding.

**Fringe Benefits.** Reporting and withholding on fringe benefits follows federal guidelines as provided in the *Federal Employer's Tax Guide, Circular E*. Examples of fringe benefits include 401(k) deferred compensation, profit sharing, and cafeteria benefit plans.

**Supplemental Unemployment Benefits.** Taxpayers who receive supplemental unemployment benefits but expect to not owe Michigan income tax can claim an exemption from withholding using form MI-W4.

**Bonuses and Other Payments.** Bonuses and other payments of employee compensation made separately from regular payroll payments are subject to Michigan income tax withholding. The withholding amount equals the payment amount multiplied by 4.25 percent (0.0425). Do not make any adjustment for exemptions.

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### Who Must Be Registered?

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A person (including a company or other organization) must be registered for income tax withholding if the person:

- Is an employer. This may include in-state or out-of-state employers. See page 1, “**Who is an Employer?**” section.
- Is under Michigan jurisdiction and is required to withhold Michigan tax from taxable pension and/or annuity payments.
- Is not under Michigan jurisdiction, but agrees to withhold Michigan tax from taxable pension and/or annuity payments.

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### How to Register

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Treasury offers an easy, secure, and convenient online registration process that is faster than registering by mail. Go to [mto.treasury.michigan.gov](http://mto.treasury.michigan.gov) and visit the Help Center to access the e-Registration tutorial. You will receive a confirmation number of your electronic application submission.

If you do not have an FEIN, you must apply for one with the IRS on their website [www.irs.gov](http://www.irs.gov) or by phone 1-800-829-4933. The Michigan employer identification number is usually the same as the FEIN assigned by the IRS. When acquiring a business you must register with Michigan and obtain a new FEIN. Do not use the FEIN assigned to the previous business owner.

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### Reporting and Paying Amounts Withheld

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All taxpayers must file return(s) and remit applicable payment(s) according to their filing frequency established by Treasury. There are 3 return filing options: [Michigan Treasury Online \(MTO\)](#), use of [Treasury approved commercial or proprietary software](#), or paper filing (eligible forms only). The preferred method of filing and paying is through MTO, however, printable returns are available at [www.michigan.gov/taxes](http://www.michigan.gov/taxes).

When completing return information using MTO, you may electronically send a tax payment using checking or savings account information or debit and credit card. Return and payment information can be transmitted in one or multiple MTO sessions. You may also remit your payment outside MTO using ACH Credit, or by completing a *Sales, Use and Withholding Payment Voucher* (Form 5094), when you e-file a return and choose to pay by paper check.

For complete filing and payment information, visit [www.michigan.gov/taxes](http://www.michigan.gov/taxes). Complete instructions for registering and paying by MTO are available at [www.michigan.gov/mtobusiness](http://www.michigan.gov/mtobusiness).

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## Wage Statements and Income Record Forms

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**Overview.** “Wage statements” as used in this guide means Form W-2 or W-2 C. “Income record forms” include Forms W-2, W-2 C, W-2G, 1099-R, 1099-MISC, and 1099-NEC.

**W-2s.** Employers required by federal law to file Form W-2, Wage and Tax Statement, must provide a copy to the State of Michigan if the Form W-2 is issued to a Michigan resident employee, to report work performed in Michigan, or to report Michigan income tax withheld. For more about federal requirements, see [www.irs.gov](http://www.irs.gov), including Publication 15 (*Circular E*), *Employer’s Tax Guide*.

**Correcting W-2 Errors.** If the error was due to underreporting withholding on the original W-2, issue a corrected W-2 and send a copy to Treasury. As provided in Mich Admin Code, R 206.33(3)(b), the employer can only receive a refund if the original W-2 is recovered from the employee. When an employee retains the original, erroneous W-2, the employee, not the employer, must request the refund. The corrected form should be clearly marked “Corrected by the Employer”.

If the error was due to overreporting withholding on the original W-2, do not issue a corrected W-2. This type of correction must be handled in one of the following ways (see Rule 206.22):

- 1) The employer may repay the amount withheld in error to the employee anytime within the same calendar year. The employer shall obtain a receipt from the employee and keep in business records. The employer may adjust their records and deduct the amount refunded from the tax owing on his next return or ask for a cash refund.
- 2) If the employer does not repay the employee as noted above, the employee may claim a credit for the amount withheld on their individual income tax return (Form MI-1040).

If an issued W-2 is lost or destroyed, provide the employee with a substitute copy clearly marked “Reissued by Employer”.

If the withholding error occurs before a W-2 is issued, adjust a later paycheck and make the same adjustment in the next payment due to Treasury.

**W-2Gs.** Michigan casinos, racetracks, and off-track betting facilities may be required to report winnings of, and withholding for, nonresidents of Michigan. See the associated information in the “Other Withholding” section for more information.

**1099s.** Persons required by the internal revenue code to issue certain 1099 forms (specifically, 1099-R, 1099-MISC, and 1099-NEC) must file a copy with the State of Michigan of each form issued to a Michigan resident, regardless where the issuer is domiciled or where the resident’s work or services were performed. 1099 state copies must also be sent to Michigan if the form reports Michigan withholding. For more information about who is required to issue 1099s, see [www.irs.gov](http://www.irs.gov).

**Due Dates.** State copies of most income record forms are due to Treasury on or before January 31. The exceptions to this general rule are paper filed Form 1099-MISCs, which are due February 28, and electronically filed Form 1099-MISCs, which are due March 31. Late filing is subject to penalty. Treasury

does not have the authority to grant an extension of these due dates.

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## Michigan Filing Options: Income Record Forms

**FIRE/CFSF Program.** Michigan participates with the federal Combined Federal/State Filing (CF/SF) Program. This means that the IRS shares certain income record form information with Michigan automatically satisfying a Michigan taxpayer's filing requirement with Treasury. **The exception to this general rule is Form 1099-NEC. While Form 1099-NEC is included in the CF/SF Program beginning tax year 2021, Michigan requires the state copy be filed directly with Treasury.**

In order for a taxpayer or their service provider to take advantage of this program, they must apply with the IRS and remit the eligible income record forms electronically through the IRS' Filing Information Returns Electronically (FIRE) System. The IRS issues Publication 1220 each year, which provides guidance on this electronic remittance process, including accepted forms and formats.

**Michigan Treasury Online (MTO).** Taxpayers and service providers that need to send state copies of income record forms directly to Treasury are encouraged to do so electronically using MTO. Electronic submission is required for taxpayers reporting 250 or more income record forms; however, electronic submission is available to all taxpayers.

There are two electronic remittance pathways in MTO for income record forms. Option 1: send all income record statements (1099s and W-2s) for a particular business through the Sales, Use, and Withholding (SUW) Tax Service, Wage Statement upload page. This portal requires a connection between your personal MTO user profile and the registered business tax account. Option 2: send W2 information for one or multiple businesses through the EFW2 Guest Service. This portal requires the file be formatted in EFW2 format, as regulated by the federal Social Security Administration.

**Magnetic Media.** Treasury offers Magnetic Media filing to all taxpayers reporting fewer than 250 income record forms to Michigan. Magnetic Media can be sent by mail. For more information, refer to *Transmittal for Magnetic Media Reporting of W-2s, W-2Gs and 1099s to the State of Michigan* (Form 447).

**Paper Mailing.** Treasury accepts paper filing from taxpayers reporting fewer than 250 income record forms to Michigan to: Michigan Department of Treasury Lansing, MI 48930. Do not mail income record forms with the SUW annual return. Do not include a copy of the SUW annual return with this mailing.

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## Employee Exemptions

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### MI-W4 Withholding Exemption Certificate

Every employer must obtain a *Withholding Exemption Certificate* (Form MI-W4) from each employee. The federal W-4 cannot be used in place of the MI-W4.

The exemption amount is \$5,400 per year times the number of personal and dependency exemptions allowed under Part 1 of the Michigan Income Tax Act. An employee may not claim more exemptions on the MI-W4 than can be claimed on the employee's Michigan income tax return. Michigan has additional special exemptions that are claimed on a taxpayer's

Michigan income tax return, but are not claimed on an MI-W4.

The MI-W4 enables employees to claim exemption from Michigan income tax withholding. Employees may claim exemption from withholding only for certain reasons that are specified on that form; see Form MI-W4 for details.

Any changes made to an MI-W4 makes the form invalid. Any writing on the certificate other than entries required is considered a change.

If you receive an invalid certificate, do not consider it to compute withholding. You must inform the employee who submitted the certificate that it is invalid and require the employee to submit a corrected MI-W4. If the employee does not comply, withhold from the employee's total compensation based on zero exemptions. If a prior valid certificate is in effect, continue to withhold in accordance with the prior valid certificate.

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### Sending Certain MI-W4 Certificates

Employers must submit to Treasury a copy of any MI-W4 received from employees who:

- Claim ten or more exemptions, or
- Claim their compensation is exempt from withholding tax.

Employers should **not** send to Treasury copies of exemption certificates filed by:

- Part-time or student employees whose expected earnings will be less than their exemption allowance.
- Employees who claim their compensation is exempt because they live in a reciprocal state, or
- Employees who claim their compensation is exempt for only a specified time (for example, two pay periods).
- New hires, unless they claim ten or more exemptions or claim they are exempt from withholding. See "*Reporting Newly Hired Employees*".
- Copies of federal W-4s; for state tax, use this official MI-W4 only.

Do not attach MI-W4 forms to any Sales, Use, and Withholding tax return. Send the required copies to:

Michigan Department of Treasury  
Tax Technical Section  
P.O. Box 30477  
Lansing, MI 48909

Treasury does not want these things automatically; plus, the reason for claiming full exemption must be indicated on the W-4.

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### Reciprocal Agreements

Employers located in Michigan must withhold Michigan income tax from all compensation paid to nonresident employees for work done in Michigan, unless covered by a reciprocal agreement.

Michigan has entered into reciprocal agreements with the states of Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin. This means that a Michigan employer will not withhold Michigan income tax from residents of these states who work in Michigan. Employers in Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin will not withhold their state income tax from Michigan residents who work in their state. However, such employers may voluntarily register with Treasury to withhold Michigan income tax from Michigan residents who work in their states.

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## Certificate of Nonresidency

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Treasury does not furnish nonresidency certificates. The employer may develop a form or obtain a letter from the employee. The form or letter should contain the employee's name, legal address, Social Security number, and a statement signed and dated by the employee that this is his or her legal address. The employer keeps the form as its authority not to withhold Michigan income tax.

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## Employer Discontinuance

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If you go out of business or permanently stop being an employer, you must do **all** of the following:

- As soon as possible, complete Notice of Change or Discontinuance (Form 163) electronically on MTO at **mt0.treasury.michigan.gov** or mail the paper form, available at **www.michigan.gov/taxes**.
- No later than 30 days after going out of business or ceasing to exist, file copies of W-2s with Treasury.
- No later than 30 days after the last payment of compensation, give W-2s to employees.
- No later than February 28 of the year following the year of discontinuance, file Sales, Use and Withholding Tax Annual Return (Form 5081) with Treasury.

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## Records You Must Keep

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You must keep all records pertinent to this tax available for inspection by Treasury. The records are similar to those necessary for federal income tax withholding as shown in the *IRS Publication 15, Employer's Tax Guide (Circular E)*.

Records must show the amounts and dates of all compensation payments subject to this tax. Include employee name, address, Social Security number, MI-W4, occupation, and period of employment. Include records that show periods an employee was paid by the employer while absent from work due to sickness or personal injury. Show the amount and weekly rate of such payments. Keep duplicates of all returns filed.

**These records must be kept at least six years after the date the tax to which they relate becomes due or the date the tax is paid, whichever is later.**

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## Reporting Newly Hired Employees

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Treasury encourages employers to take advantage of the online internet reporting and information available at **www.mi-newhire.com**. Employers using online reporting will have access to a secure website, receive e-mail confirmations for new hire submissions, be able to view reporting history online, and have access to the *New Hire Reporting Form* (Form 3281). For additional New Hire reporting information, call 1-800-524-9846.

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## Contact Treasury

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Contact Treasury at Michigan Department of Treasury, P.O. Box 30427, Lansing, MI 48909; 517-636-6925. Assistance is available using TTY through the Michigan Relay Service by calling 711. Printed material in an alternate format can be requested by calling 517-636-6925.