This handout is provided as part of a presentation and is for illustrative purposes only. The content does not carry the weight of law, bulletins or rulings. Therefore, it should only to be used as an aid for viewing, taking notes and future reference based on the material presented.

The topics covered, screenshots provided and guidance supplied is subject to change. The most current Treasury information regarding this topic is available at [www.michigan.gov/taxes](http://www.michigan.gov/taxes).
Culture of Taxpayer Service
- listening and sharing

Continuous Improvement
- internal processes

Engaged Employees
- finding solutions

Michigan Treasury

Our Aspiration: Michigan Treasury will become the best operated treasury department in the United States and the State’s thought leader on all tax and revenue issues.
TAX TECHNICAL UPDATES

Individual Income Tax (IIT)
2019 IIT Updates

- Tax rate: 4.25%
- Personal exemption amount: $4,400
- Special exemption: $2,700
- Qualified disabled veteran deduction: $400
- Stillbirth exemption (per MDHHS certificate): $4,400
2019 IIT Updates – Forms

Michigan Schedule 1 Additions and Subtractions

- Line item numbers changed starting with 21
  - Line 21 – Miscellaneous Subtractions
  - Line 22 – Deduction Based on Year of Birth

- Line 26 - Computes a subtraction subtotal to accommodate (Line 27) potential Net Operating Loss (NOL) deduction limitations established under federal Tax Cuts and Jobs Act
2019 IIT Updates – Forms

- **Michigan Net Operating Loss Schedule (MI-1045)**
  - The MI-1045 is now a supporting schedule
  - Submitted with the loss year MI-1040, including e-filed returns

- **Farmland Preservation Tax Credit Claim (Form MI-1040CR-5)** has been modified
  - Part 2: “Signed Distribution Statement for Joint Owners” has been moved to a new form
  
  The NOL deduction for a Farmland Preservation tax credit, formerly page 3 of the MI-1045, is now located on Form MI-1040CR-5, Part 4
2019 IIT Updates – Forms

NEW

- Michigan Net Operating Loss Deduction (Form 5674)
- Michigan Farming Loss Carryback Refund Request (Form 5603)
- Signed Distribution Statement for Joint Owners of Farmland Development Rights Agreements (Form 5678)
- Michigan Fiduciary Income Tax Information Continuation Schedule (Form 5680)
Retirement and Pension Benefits
Retirement & Pension Benefits

- No change to qualified benefits eligible for subtraction
- Amount of subtraction is based on year of birth
  - For married filing jointly, use the year of birth of the oldest spouse
  - For deceased benefits, use the year of birth of the decedent but the filing status of surviving spouse
  - Married Filing Separately follows Single limits
**Retirement & Pension Benefits**

► Pension and Retirement Benefits include most payments on federal 1099-R, to the extent included in AGI
  - Defined Benefit Pensions
  - IRA Distributions
  - Most Defined Contribution Plans
► **Does not** include distributions from deferred compensation
2019 Pension – Tier 1

- Private Pension Deduction Limit (Tier 1 filers - those born before 1946)
  - Single filer - $52,808
  - Joint filers - $105,615

- Senior Dividend, Interest and Capital Gains Deduction (for those born before 1946)
  - Single filer - $11,771
  - Joint filer - $23,542
In 2019, all Tier 2 filers (those born 1946-1952) are no longer eligible for a pension subtraction and are now eligible for the standard deduction:

- Single filer - $20,000 against all income
- Joint filers - $40,000 against all income
- If one spouse has SSA exempt benefits, increase deduction by $15,000. If both spouses have SSA exempt benefits, increase deduction by $30,000.
Reminder – As of 2018, subtraction for taxpayers who:

- were born after 1945
- have retired as of January 1, 2013
- receive pension benefits from SSA exempt employment with a governmental agency

Subtraction of pension benefits or standard deduction up to:

- Single: $35,000
- Joint: $55,000
- Both spouses qualify: $70,000
How to Handle Surviving Spouse Benefits

**Situation:**
- The deceased spouse born in 1945 (Tier 1)
- The un-remarried surviving spouse born in 1948 (Tier 2 retiree)

**Result:**
- The un-remarried surviving spouse no longer takes a pension deduction as they now qualify for the Standard Deduction.
- The surviving spouse may still qualify for the interest, dividends, and capital gains deduction, if the deceased spouse in Tier 1 was 65 or older at the time of death.
How to Handle Surviving Spouse Benefits

- **Situation:**
  - The deceased spouse born in 1944 (Tier 1)
  - The un-remarried surviving spouse born in 1953 (Tier 3 retiree not receiving benefits exempt from SSA & did not retire before January 1, 2013) is receiving surviving spouse pension benefits from decedents private pension

- **Result:**
  - For 2019, the un-remarried surviving spouse is allowed to subtract retirement benefits received from the deceased spouse as if they were a Tier 1 retiree.
How to Handle Surviving Spouse Benefits

**Situation:**
- The deceased spouse born 1949 (Tier 2) and *had not* reached age 67 before their time of death
- The un-remarried surviving spouse born in 1953 (Tier 3 retiree not receiving SSA exempt benefits & not retired by January 1, 2013) is receiving surviving spouse pension benefits from a private pension

**Result:**
- For 2019, the un-remarried surviving spouse is allowed to subtract retirement benefits received from the deceased spouse as a Tier 2 retiree
Where to Report Retirement & Pension Benefits

► **Form 4884 Pension Schedule**
  - Subtractions flow to Schedule 1
  - Refer to Scenarios within the MI-1040 Instruction Booklet

► **Schedule 1 Line 23**
  - For Tier 2 Filers eligible for the standard deduction against all income
Total Household Resources

► Reminder – Revenue Administrative Bulletin 2015-18
► What THR is:
  ▪ Total income – taxable & nontaxable
  ▪ Adjusted gross income (AGI)
    ▪ Includes any income excluded or exempt from AGI
    ▪ Excludes net business and farm losses, net rent and royalty losses, & any carryover of a net operating loss
► Its purpose:
  ▪ Used in calculation of the credit claims
  ▪ Determines an individual’s eligibility to receive a homestead property tax credit or home heating credit
Total Household Resources

Adjustments to THR:

- Items from U.S. Form 1040, Schedule 1
  - Examples – student loan interest deduction, deductible part of self-employment tax, self-employment health insurance deduction
Adjustments to THR:

Medical Insurance/HMO Premiums

- Example: personal insurance protection (PIP) benefits
- PIP is an extension of vehicle insurance that covers medical expenses and other expenses. The cost for PIP is typically included within an individual’s vehicle insurance payments.

- How does PIP affect THR?
  - Michigan Compiled Law (MCL) 206.510(1) states that a person enrolled in an accident or health insurance plan may deduct from income the amount of “post tax” monies a person paid in health insurance premiums that tax year.
Homestead Property Tax Credit
Reminder – Homestead Property Tax Credit Claim

- Maximum credit is $1,500
- Percent of rent paid for credit calculation is 23%
- Total Household Resources (THR) limit is $60,000; phase-out begins at $51,000
- Percent of THR for credit computation is 3.2% (no change to % for THR less than $6,000)
Homestead Property Tax Credit

- Refundable credit which can be returned to taxpayer, even if there is no tax liability

- Who can claim this?
  - Homeowners and renters
  - Must be a Michigan resident for at least 6 months
  - Have property taxes levied that exceed 3.2% of THR
  - THR does not exceed $60,000
  - Homes must have a taxable value of $135,000 or less
    - Exception for farmers with unoccupied farmland
Homestead Property Tax Credit

- The credit computation starts with the amount of property taxes or 23% of rent that exceeds 3.2% of THR.
- Credit is limited to $1,500.
- Additional credit phase-out begins when total household resources is $51,001.
  - Credit reduced by 10% for each additional $1,000 over $51,001.
  - Phase-out is complete at $60,001.
  - This phase-out applies after the computations for Senior, Disabled, and Other Claimants.
Homestead Property Tax Credit

► Senior Claimants:
  - If THR is $21,000 or less, 100% of computed credit is allowed.
  - If THR is $21,001 to $30,000, computed credit is reduced by 4% for each additional $1,000 of THR.
  - If THR is $30,001 to $51,000, 60% of computed credit is allowed.

► Disabled Claimants:
  - Not subject to phase-out until THR exceeds $51,000.

► Other Claimants:
  - Eligible for 60% of computed credit, if THR is $51,000 or less.
Types of Housing

- **Mobile Home** – claim $3 per month (specific tax) **plus** 23% of rent

- **Subsidized Housing** – use amount of rent paid by claimant or their allocable share of property taxes; don’t include amounts paid by governmental agency

- **Service Fee Housing** – use 10% of rent; a service fee is paid in lieu of property taxes

- **Special Housing** – must based claimant’s credit on his/her portion of bill that constitutes rent. If unable to identify rent, must use allocable share of property taxes on the facility

- **Tax Exempt Housing** – not eligible for credit

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**Homestead Property Tax Credit**
Home Heating Credit
2019 IIT Updates

► **Home Heating Credit Claim (Form MI-1040CR-7)**
  - New Line 5 – Citizenship status question for filer and spouse (federal requirement)
  - New Line 6 - code for heat provider name
  - New Line 7 – code for heat type
  - New Line 17 – List all household members and indicate dependent and citizenship status (federal requirement)

► No change to computation or processing
Home Heating Credit Claim

Who may claim this?

- Taxpayers whose homestead is in Michigan
- Taxpayers who own or rent the home where he/she lived
- Taxpayers whose THR are within specific income limits
Home Heating Credit Claim

Credit Computation

- Standard Credit
  - Uses standard allowance amount established per law & number of exemptions
  - Uses 3.5% of THR
- Alternate Credit
  - Uses actual heat costs (limited by law)
  - Uses 11% of THR
IIT Helpful Hints
IIT Helpful Hints

► Do not truncate SSN or FEIN on any form

► E-filed return with payment paid by check
  ▪ Submit payment with MI-1040V. Do not include a copy of the e-filed return

► Include PDF attachments when applicable
  ▪ See Handout or Taxpayer Assistance Manual, page 16 – 17
IIT Helpful Hints

► Amending MI-1040
  ▪ Always include Schedule AMD
  ▪ Always provide reason for amending and include supporting documentation
  ▪ Line 31: Use appropriate +/- for refund or tax paid with original filing

► Paper filers:
  ▪ Follow the form’s attachment order
  ▪ Place all supporting documents at the end

► Miscellaneous subtractions
  ▪ Follow instructions – only specific items allowed
IIT Helpful Hints

- Homestead property tax credit common errors
  - Reporting taxable value as property taxes and vice versa
  - Not reporting total taxable value of multiple eligible parcels
  - Including special assessments
  - Reporting annual rent as monthly rent
  - Reporting rent in special housing without an itemized statement from the facility
  - Excluding nontaxable income in total household resources (e.g., Social Security, child support received, inheritance from other than spouse)
IIT Helpful Hints

► Schedule 1
  ▪ Report social security amount on Schedule 1 line 14
  ▪ Report ALL railroad pension amount on Schedule 1 line 11

► Schedule W
  ▪ Report all railroad retirement (both Tier 1 and Tier 2) and military retirement included in AGI, regardless of any withholding
  ▪ 1099R & miscellaneous income – report taxable amount (in AGI)
IIT Helpful Hints

► Pension Schedule (Form 4884)
  ▪ Do not complete if eligible for the standard deduction
  ▪ Include only pension distributions that are eligible for subtraction on form 4884
    o Do not include deferred compensation, 457 distributions, early distributions, etc.
  ▪ Include only taxable amount (in AGI)

► Reminder: do not report military or railroad retirement on Form 4884.
New
Revenue Administrative Bulletins (RABs)
RAB 2018-27
Income Tax – Taxability of Personal Service Income
Received by A Nonresident Professional Athlete

RAB 2018-28
Alternative Apportionment For The Michigan Business
And Income Taxes
Finding RABS, IPDs & Letter Rulings

1. michigan.gov/taxes
2. Click Reports and Legal
Volunteer Tax Preparer Resources

- Volunteer Preparers ONLY: 888-860-8389
- Calls answered by Customer Service Representative
- Identify yourself as a volunteer tax preparer when calling
- General questions only about tax preparation unless the taxpayer is present

- **NOT FOR PUBLIC USE OR TAXPAYER USE**
Tax Practitioner Resources

1. michigan.gov/taxes
2. Click **Tax Professionals**
Tax Practitioner Resources

- On Tax Professionals page
- Scroll to Information for Volunteer Tax Preparation Groups

Information for Volunteer Tax Preparation Groups

- 2018 Taxpayer Assistance Manual
- 2018 Taxpayer Assistance Manual Supplement (2018 updates and training exercises)
- Michigan AARP
- 2018 Tax Text Manual

Handbook on the various taxes administered by the Department.
Tax Practitioner Resources

- Practitioner Web Services *(Not for Public Use)*
  - Submit general and account specific questions regarding Treasury individual or business tax.
  - User Name: **123451040**   Password: **practitioner**

- Practitioner Hotline: **517-636-0616** *(Not for Public Use)*
  - General questions regarding tax preparation **only**.
  - Please leave a detailed voice message.
Contact Treasury

Individual Income Tax ................................................................. 517-636-4486

Business Taxes ........................................................................ 517-636-6925
e.g.: Sales, Use, Withholding, Corporate Income Tax, Michigan Business Tax

Motor Fuel Tax ........................................................................ 517-636-4600

Motor Carrier Tax ..................................................................... 517-636-4580

Tobacco and Cigarette Taxes ...................................................... 517-636-4630

Office of Collections .................................................................. 517-636-5265

Detroit City Taxes ...................................................................... 517-636-5829
Q&A with Treasury
Thank You!

Please take a moment to give us some feedback by filling out the brief survey.

We are here to talk with you. Feel free to stay after the presentation to discuss your thoughts and concerns with Treasury staff.

Important Note: This presentation is not to be construed as promulgated rules, bulletins or rulings of the Department and are subject to revision pursuant to the effect of legislation, court decisions, regulations and official statements of the Department.