

MEIC

State and Local Tax Training

Quizzes and Various Living Situations

Homestead Property Tax Credit
and
Home Heating Credit

December 2, 2020

Contents

- ◆ Quizzes pertaining to Homestead Property Tax Credit and Home Heating Credit Claims
- ◆ Scenarios for the property tax and home heating credit claims
 - Determine who can claim the credits
 - Determine total household resources
 - Determine the amount of rent/property tax claimed
 - Determine the basics for using the standard and alternate credits for the home heating credit

Quiz 1 – Barb Lyons

Facts

FACTS

- ◆ Barb Lyons is 46 years old and is deaf
- ◆ She lived at a licensed adult foster care home (AFC) for the entire tax year
- ◆ Her income for the year was Supplemental Security Income (SSI) of \$9,396 and State SSI of \$168
- ◆ She paid \$525 each month to the landlord; her monthly bill is itemized for rent (\$400), food (\$75) and other services (\$50)

Quiz 1 – Barb Lyons

Questions

1. Barb should compute a Homestead Property Tax Credit Claim based on:
 - a. Property tax credit is not allowed for a resident of an AFC home
 - b. Her share of property taxes assessed on the facility based on the licensed capacity of the AFC home or based on square footage.
 - c. Her proportionate share of property taxes assessed on the facility based on the number of actual residents in the home
 - d. Rent of \$400 per month
2. Barb is entitled to claim a Michigan Home Heating Credit.
 - a. True
 - b. False

Quiz 2 – John Dodd

Facts

FACTS

- ◆ John Dodd, 71 years old at the end of the tax year, lives in a mobile home park
- ◆ He is deemed totally and permanently disabled
- ◆ He received Social Security benefits of \$9,840 and a pension of \$5,600 in 2020
- ◆ He paid lot rent of \$460 a month

Quiz 2 – John Dodd Questions

1. For purposes of the Homestead Property Tax Credit Claim, the proper treatment of John's lot rent for the mobile home is:
 - a. \$460 a month as rent
 - b. \$424 a month as rent
 - c. \$3 per months as property tax and \$457 a month as rent
 - d. No credit allowed as residents of mobile home parks are not eligible to claim the property tax credit
2. Assume that the amount that John's property tax exceeds 3.2% of his total household resources is \$159. John will receive 100% of this amount on his Homestead Property Tax Credit Claim.
 - a. True
 - b. False
3. How many exemptions is John entitled to claim for the home heating credit?
 - a. None
 - b. One
 - c. Two
 - d. Three

Quiz 3 – Toni Taylor

Facts

FACTS

- ◆ Toni Taylor, age 46, is a single homeowner.
- ◆ She does not have a mortgage; however, she fell behind on payment of her property taxes for the last few years.
- ◆ Toni was able to catch up in 2020, paying a total of \$1,950. The payment consisted of the following:
 - ❑ \$700 for taxes levied in 2020
 - ❑ \$600 for taxes levied in 2019
 - ❑ \$500 for taxes levied in 2018
 - ❑ \$150 of interest and penalties

(Note: All tax amounts listed above include an administrative fee of 1%.)
- ◆ Toni's only income in 2020 is from wages of \$10,000.
- ◆ Toni paid for her own health insurance in 2020; her monthly medical insurance premium was \$100.

Quiz 3 – Toni Taylor

Questions

1. Toni's Michigan Homestead Property Tax Credit Claim for 2019 should be based on:
 - a. \$1,950 of taxes levied
 - b. \$1,800 of taxes levied
 - c. \$1,300 of taxes levied
 - d. \$700 of taxes levied
2. Toni's 2020 property tax statement includes a special assessment for a delinquent water bill. She can include this amount in the taxes claimed for the property tax credit.
 - a. True
 - b. False
3. The health insurance premiums that Toni paid in 2020 do not need to be considered in calculating her Homestead Property Tax Credit.
 - a. True
 - b. False

Quiz 4 – James Jones Facts

FACTS

- ◆ James Jones was born in 1951
- ◆ He files as Married Filing Separately for 2020; he did not live with his wife, Carol, for any part of 2020. In addition to filing a Michigan income tax return, James will file for the Michigan credits to which he is entitled.
- ◆ James received an Ohio public retirement benefit of \$5,400 and Social Security retirement benefits of \$4,992 in 2020
- ◆ James was a renter with a signed lease contract; he paid \$525 per month in 2020. He lived in an apartment building that was exempt from paying property taxes in 2020.
- ◆ Heating costs are currently included in his rent

Quiz 4 – James Jones

Questions

1. On his Michigan income tax return, James is eligible to subtract retirement benefits of:
 - a. \$5,400
 - b. No subtraction allowed for public retirements from another state
 - c. A \$20,000 standard deduction against all income is subtracted
 - d. Married filing separately filers cannot subtract retirement benefits

2. Which Michigan credit can James claim for 2020?
 - a. Homestead Property Tax Credit
 - b. Home Heating Credit
 - c. Both a. and b.
 - d. None of the above

Quiz 4 – James Jones

Questions (cont.)

3. If James files a Michigan Homestead Property Tax Credit Claim and/or Home Heating Credit Claim, James is required to file Michigan Form 5049.
 - a. True
 - b. False

4. If James files a Michigan Homestead Property Tax Credit Claim and/or Home Heating Credit Claim, he must include his wife Carol's income in total household resources on his Michigan credit claim(s).
 - a. True
 - b. False

Quiz 1 – Barb Lyons

Answers

1. Barb should compute a Homestead Property Tax Credit Claim based on:
- Property tax credit is not allowed for a resident of an AFC home
 - Her share of property taxes assessed on the facility based on the licensed capacity of the AFC home or based on square footage.
 - Her proportionate share of property taxes assessed on the facility based on the number of actual residents in the home

d. Rent of \$400 per month

Claimants in special housing are required to use rent to calculate the property tax credit. They must have a monthly statement or letter from landlord that itemizes the rent portion of their monthly payment. (Note: If Barb was unable to determine the portion of the monthly payment that constitutes rent, Barb would be allowed to claim a proportionate share of property taxes on the facility.)

2. Barb is entitled to claim a Michigan Home Heating Credit.

- True
- False

Individuals who lived in an adult foster care home for the entire year are not entitled to claim the Michigan Home Heating Credit

Quiz 2 – John Dodd

Answers

- For purposes of the Homestead Property Tax Credit Claim, the proper treatment of John's lot rent for the mobile home is:
 - \$460 a month as rent
 - \$424 a month as rent
 - \$3 per months as property tax and \$457 a month as rent
 - No credit allowed as residents of mobile home parks are not eligible to claim the property tax credit
- Assume that the amount that John's property tax exceeds 3.2% of his total household resources is \$159. John will receive 100% of this amount on his Homestead Property Tax Credit Claim.
 - True
 - False

As a senior claimant with total household resources of \$21,000 or less, John will receive 100% of the credit.
- How many exemptions is John entitled to claim for the home heating credit?
 - None
 - One
 - Two
 - Three

John can claim one personal exemption. Individuals age 66 or older at end cannot claim an exemption for totally and permanently disabled.

Quiz 3 – Toni Taylor

Answers

1. Toni's Michigan Homestead Property Tax Credit Claim for 2020 should be based on:

- a. \$1,950 of taxes levied
- b. \$1,800 of taxes levied
- c. \$1,300 of taxes levied
- d. \$700 of taxes levied**

Taxes levied for a prior year cannot be claimed. Interest and penalties cannot be included in the amount of taxes claimed on the Homestead Property Tax Credit

2. Toni's 2020 property tax statement includes a special assessment for a delinquent water bill. She can include this amount in the taxes claimed for the property tax credit.

- a. True
- b. False**

Special assessments cannot be included in the amount of taxes claimed for the Michigan Homestead Property Tax Credit

3. The health insurance premiums that Toni paid in 2020 do not need to be considered in calculating her Homestead Property Tax Credit.

- a. True
- b. False**

Medical insurance and HMO premiums can be deducted to arrive at total household resources on the Michigan Homestead Property Tax Credit Claim.

Quiz 4 – James Jones

Answers – Questions 1 & 2

1. On his Michigan income tax return, James is eligible to subtract retirement benefits of:

- a. \$5,400
- b. No subtraction allowed for public retirement benefits from another state

c. A \$20,000 standard deduction against all income is subtracted

d. Married filing separately filers cannot subtract retirement benefits

2. Which Michigan credit can James claim for 2020?

a. Homestead Property Tax Credit

b. Home Heating Credit

c. Both a. and b.

d. None of the above

James is an eligible renter for only the home heating credit. The building he lives in is exempt from property tax; therefore, James is not eligible to claim the property tax credit.

James is in Tier 2 and has reached the age of 67; therefore, a subtraction of retirement & pension benefits is no longer allowed. He can claim a standard deduction of \$20,000 against all income.

Quiz 4 – James Jones Answers – Questions 3 & 4

3. If James files a Michigan Homestead Property Tax Credit Claim and/or Home Heating Credit Claim, James is required to file Michigan Form 5049.

a. True

b. False

James files his Michigan Home Heating Credit Claim as Married Filing Separately; therefore, he must attach Form 5049, Married Filing Separately and Divorced or Separated Claimants Schedule, and indicate an explanation that he maintained a separate homestead all year.

4. If James files a Michigan Homestead Property Tax Credit Claim and/or Home Heating Credit Claim, he must include his wife Carol's income in total household resources on his Michigan credit claim(s).

a. True

b. False

Since he did not share a homestead with Carol at any time in 2020, he would not need to include her income.

Scenario 1 – Tom & Fred

Facts

TOM

- ◆ Age 68, and Blind
- ◆ Income:
 - SSI - \$9,396
 - State SSI - \$168
- ◆ Rent paid - \$0

FRED

- ◆ Age 70
- ◆ Income:
 - Social Security - \$18,600
- ◆ Rent paid - \$800/month

- ◆ Tom and Fred, brothers, rented an apartment together all last year. They are both tenants on the lease; rent was \$800 per month in 2020, paid by Fred.
- ◆ The gas bill is in Tom's name; annual heating costs were \$580. Tom and Fred each paid ½ of the bill each month.
- ◆ Tom gave Fred \$250 each month to help with rent.
- ◆ Tom and Fred shared equally in paying for all of the other household expenses.

Scenario 1 – Tom & Fred Questions

- ◆ Who can claim the property tax credit?
 - _____
- ◆ What are the total household resources for each claimant?
 - Tom: \$_____ Fred: \$_____
- ◆ How much rent or taxes can each person claim?
 - Tom: \$_____ Fred: \$_____
- ◆ Who can claim the home heating credit?
 - _____
- ◆ Which method or credit computation can each person use to calculate the home heating credit?
 - Standard Credit Alternate Credit

Solution (cont.) Scenario 1 – Tom & Fred

- 3) How much rent or taxes can each person claim?
 Tom: \$400/month **Fred: \$400/month**
- 4) Who can claim the home heating credit?
 Both Tom and Fred
- 5) Which method or credit computation can each person use to calculate the home heating credit?
 Tom: **Standard Credit** **Alternate Credit**
 Fred: **Standard Credit** **Alternate Credit**

See next slides for standard allowance and for heating costs

Solution (cont.)

Scenario 1 – Tom & Fred

- 5) Standard Credit:** Both Tom and Fred can use the standard credit, but must begin the computation by using the Shared Housing Standard Allowance:

Tom's Standard Allowance:

$$\begin{aligned} \$665 \div 2 &= \$333 \\ \$837 - 665 &= \underline{172} \\ &= \underline{\underline{\$505}} \end{aligned}$$

Fred's Standard Allowance:

$$\$665 \div 2 = \$333$$

See the next slide for how the Shared Housing Standard Allowances shown above were calculated for Tom and Fred.

Note: The calculation is dependent upon the number of personal exemptions of all claimants sharing the home and the number of special exemptions for which a claimant is eligible (e.g., disability, qualified disabled veteran, dependent).

Solution (cont.)

Scenario 1 – Tom & Fred

5) Standard Credit (continued):

Shared housing standard allowance (See pg. 5 of MI-1040CR-7 instructions):

1. First, look up the standard allowance for all of the personal exemptions in the home, two in this scenario. The standard allowance for two exemptions in 2019 is \$652. (Per Michigan Treasury Update, Sept. 2019.)
2. Divide this standard allowance by the number of claimants in the home: $\$665 \div 2 = \333 for this scenario. This is Fred's shared housing standard allowance.
3. Tom is eligible for a special exemption. For this scenario, add the difference between the standard allowance for three exemptions and the standard allowance for two exemptions ($\$837 - \$665 = \$172$) to the amount calculated in step 2 above ($\$333$). $\$505$ ($\$172 + \333) is Tom's shared housing standard allowance.
(Tom can claim a special exemption because he is blind. Age does not matter when claiming an exemption for deaf, blind, hemiplegic, paraplegic and quadriplegic. An exemption for totally and permanently disabled can no longer be claimed once the individual is 66 yrs. of age or older.)

Solution (cont.) Scenario 1 – Tom & Fred

5) Alternate Credit: Both Tom and Fred can claim the alternate credit:

Heating Costs Tom and Fred may Each Claim:

$$\$580 \div 2 = \underline{\$290}$$

When two or more single adults share a home and each owns the home or has contracted to pay rent, the annual heating costs should be divided by the number of eligible claimants in the home, regardless of who pays the bill and in whose name the gas bill is.

Note: A claimant is not eligible to use the alternate credit when:

- 1) Claim is for less than 12 months (e.g., part-year resident or not billed for 12 months' heating costs between 11/01/2019 through 10/31/2020), or
- 2) Heating costs are currently included in rent

Scenario 2 – Daisy & Sam

Facts

DAISY

- ◆ Age 63
- ◆ Income:
 - Social Security (SSDI) - \$4,860
 - Pension - \$11,600

SAM

- ◆ Age 28, Totally and permanently disabled
- ◆ Income:
 - Social Security - \$9,084

- ◆ Daisy and her son Sam lived in Daisy's home all last year.
- ◆ Sam does not provide over ½ of his own support.
- ◆ His Social Security comes in his mother's name for him.
- ◆ The gas bill is in Sam's name; however, Daisy paid the gas bill each month. Annual heating costs were \$1,560.
- ◆ Daisy paid for all other household expenses including property taxes for 2020 of \$1,798.

Scenario 2 – Daisy & Sam Questions

- ◆ Who can claim the property tax credit?
 - _____
- ◆ What are the total household resources for each claimant?
 - Daisy: \$_____ Tom: \$_____
- ◆ How much rent or taxes can each person claim?
 - Daisy: \$_____ Tom: \$_____
- ◆ Who can claim the home heating credit?
 - _____
- ◆ Which method or credit computation can each person use to calculate the home heating credit?
 - Standard Credit Alternate Credit

Solution

Scenario 2 – Daisy & Sam

- 1) Who can claim the property tax credit?
 - ❑ **Only Daisy can claim the credit; Sam does not own the home with his mother**
- 2) What are the total household resources for each claimant?
 - ❑ Daisy: **\$25,544** Sam: **N/A**

Daisy's THR:

Social Security	\$ 4,860
Pension	11,600
Social Security received for Sam	<u>9,084</u>
Total THR	<u>\$25,544</u>

Sam's THR:

N/A since he is not a claimant.

Solution (cont.) Scenario 2 – Daisy & Sam

- 3) How much rent or taxes can each person claim?
 Daisy: \$1,798 prop. taxes **Sam: \$0**
- 4) Who can claim the home heating credit?
 Daisy (Even though the gas bill is in Sam's name he is not eligible to claim the home heating credit because he did not own the home or have a lease agreement to pay rent.)
- 5) Which method or credit computation can each person use to calculate the home heating credit?
 Daisy: **Standard Credit** **Alternate Credit**
 Sam: **Standard Credit** **Alternate Credit**
See next slides for standard allowance and for heating costs

Solution (cont.) Scenario 2 – Daisy & Sam

- 5) **Standard Credit for Daisy:** Daisy can use the standard credit to calculate her home heating credit. The credit is based on the number of exemptions she can claim, 4, which gives her a standard allowance of \$1,010 for 2020. She uses this amount as the beginning of her standard credit computation.

Daisy's exemptions:

Personal exemption	1
Deaf, disabled or blind	2
Dependent adults	<u>1</u>
Total Exemptions	<u>4</u>

Daisy can claim a disability exemption for herself (she gets SSDI) and for her son, Sam. She can also claim a dependency exemption for her son.

Solution (cont.) Scenario 2 – Daisy & Sam

- 5) Alternate Credit:** Daisy is eligible to use the alternate credit to compute her home heating credit.

Even though the heating costs are in his name, Sam is not entitled to claim a home heating credit because he did not own the home nor did he have a lease agreement to pay rent.