

MEIC
State & Local Tax Training

Michigan Issues

Income Tax Issues
Michigan Credit Claims
Quizzes
Various Living Scenarios

November 22, 2019 1

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Presentation Notes

- ◆ References to tax law are for tax year 2019.
- ◆ References to tax forms are to 2018 Michigan forms. (Updates for 2019 will be provided if known.)
- ◆ Any TaxSlayer screenshots are from the Practice Lab, tax year 2019, prepared in November 2019. (Updates for TaxSlayer 2019 will be provided if known.)

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2019 Tax Law Updates

- ◆ Exemption Allowances
 - ❑ Personal and dependent exemptions increase to \$4,400 (from \$4,050 in 2018)
 - ❑ Exemption for someone who can be claimed as a dependent remains at \$1,500
 - ❑ Special exemption allowance stays at \$2,700
 - ❑ Qualified disabled veteran exemption remains at \$400
 - ❑ New exemption for a stillbirth is \$4,400 – based on a Certificate of Stillbirth from MDHHS
- ◆ Income from payments for wrongful incarceration – To the extent not included in AGI, these payments do not have to be included in Total Household Resources

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**Retirement and Pension Benefits
and the
Michigan Income Tax Return**

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Retirement and Pension Benefits that are Not Taxed

- ◆ Regardless of date of birth, the retirement and pension benefits listed below are **not** taxed in Michigan
- ◆ If included in AGI, they should be subtracted on the Michigan return on Schedule 1
 - ❑ U.S. Military pensions
 - ❑ Michigan National Guard pensions
 - ❑ Social Security benefits
 - ❑ Railroad Retirement benefits

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U.S. Armed Forces and Michigan National Guard Retirement Benefits and Railroad Retirement Benefits

- ◆ Military and Michigan National Guard retirement benefits are subtracted on line 11 of Michigan Schedule 1, Additions and Subtractions.
- ◆ Any taxable Railroad Retirement Board (RRB) benefits, both Tier 1 and Tier 2, are also subtracted on line 11 of Schedule 1.
- ◆ **TaxSlayer entry for U.S. Military and Michigan National Guard benefits:**
 - ❑ *Michigan Subtractions from Income* page, select the first item that begins with "Amount included in MI-1040, line 10, from military retirement benefits ..."
- ◆ **TaxSlayer entry for Railroad Retirement Board benefits:**
 - ❑ No additional entry needed for Tier 2 Railroad Retirement Benefits
 - ❑ If any part of Tier 1 benefits are included in AGI, go to *Michigan Subtractions from Income* page, select the first item that begins with "Amount included in MI-1040, line 10, from military retirement benefits ...", and enter the amount of RRB Tier 1 benefits included in AGI. (This will result in the correct reporting of the subtraction on Michigan Schedule 1, line 11, of any taxable Tier 1 RRB benefits.)

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Social Security Benefits

- ◆ Any taxable Social Security benefits included in AGI are subtracted on line 14 of Michigan Schedule 1, Additions and Subtractions.
- ◆ **TaxSlayer entry:** The amount carries forward from the federal return, no additional entry needed on the Michigan return in the software.

(Note: Line 14 of Michigan Schedule 1 is also used to subtract military pay (compensation received for active duty in the U.S. Armed Forces) included in AGI.

TaxSlayer – There is a tab on the *Subtractions from Income* page to select and then enter any military pay eligible for subtraction on the Michigan return.)

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Other Public or Private Retirement Benefits

- ◆ Qualified pension and retirement benefit distributions eligible for subtraction on the Michigan return are reported on Michigan Form 4884, Michigan Pension Schedule, and on line 25 of Michigan Schedule 1, Additions and Subtractions.
- ◆ Qualification for a subtraction is a Two-Step process:
 - 1) Form 1099-R distribution code (Box 7)
 - 2) Then use the appropriate age category – Tier 1, Tier 2 or Tier 3

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What are Qualified Distributions?

- ◆ Qualifying retirement and pension benefits include most payments that are reported on a Form 1099-R, including distributions from the following sources:
 - ❑ Pension plans that define eligibility for retirement and set contribution and benefit amounts in advance
 - ❑ Qualified retirement plans for the self-employed
 - ❑ Retirement distributions from a 401(k) or 403(b) plan attributable to employer contributions or attributable to employee contributions that result in additional employer contributions (e.g., matching contributions)
 - ❑ IRA distributions received after age 59½
 - ❑ Benefits paid to a senior citizen (age 65 or older) from a retirement annuity policy that are paid for life (as opposed to a specified number of years)
 - ❑ Foreign retirement and pension benefits that meet Michigan's qualifications may also be eligible

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What Distributions Do Not Qualify for a Subtraction?

- ◆ Certain distributions reported on Form 1099-R are not retirement or pension benefits. These include :
 - ❑ Amounts received from a deferred compensation plan that lets the employee set the amount to be put aside and does not set retirement age or requirements for years of service. These plans include, but are not limited to:
 - ❖ All distributions from 457 plans
 - ❖ Distributions from 401(k) or 403(b) plans sourced to employee contributions and the earnings from those contributions if they were not matched by the employer
 - ❑ Amounts received before the recipient could retire under the plan provisions, including amounts paid on separation, withdrawal, or discontinuance of the plan
 - ❑ Amounts received as early retirement incentives, unless the incentives were paid from a pension trust

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Subtraction for Qualified Retirement & Pension Benefits is a Two-Step Process

STEP ONE: Distribution code on Form 1099-R

- ◆ Treasury's web page for Retirement & Pension Information has a 1099-R Distribution Code Chart

STEP TWO: Once it's determined the qualified distribution may be subtracted based on the distribution code, then look at the taxpayer's year of birth *and* age:

Age category – Tier 1, Tier 2, or Tier 3

- ◆ Tier 1 – Taxpayers born before 1946
- ◆ Tier 2 – Taxpayers born in 1946 through 1952
- ◆ Tier 3 – Taxpayers born after 1952

Note: MFJ return – The age of the older spouse determines tax treatment

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**Step 1: Form 1099-R, Box 7, Distribution Code
-- Distribution Codes 1 through 7 --**

- ◆ **Code 1, Early distribution, no known exception** – Not eligible for subtraction
- ◆ **Code 2, Early distribution, exception applies** – Not eligible for subtraction unless part of a series of mainly equal periodic payments made for the life of the employee or the joint lives of the employee and their beneficiary; or unless early retirement under the terms of the plan.
- ◆ **Code 3, Disability** – Eligible for subtraction (even if distribution is reported as wages)
- ◆ **Code 4, Death** – Eligible for subtraction for surviving spouse only and only if decedent would have qualified for a normal distribution, Code 7, at the time of death
- ◆ **Code 7, Normal distribution** – Eligible for subtraction
- ◆ **Codes 5, 6, 8 and 9** – Not eligible for subtraction.
Note: Codes 5, 6, 8 & 9 are out of scope for VITA/TCE.

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**Retirement & Pension Benefits
Taxpayers Born Before 1946 (Tier 1)**

TIER 1: Taxpayers born before 1946

- ◆ Social Security is exempt
- ◆ Senior citizen subtraction for interest, dividends, and capital gains, up to certain dollar limits
 - ❑ May be limited if pensions benefits are also subtracted
- ◆ Public pensions exempt
- ◆ Private pensions exempt, up to certain dollar limits
 - ❑ Limit is reduced by any public retirement benefit, military retirement benefit, retirement from Michigan National Guard, and railroad retirement

TAXSLAYER Entries in the Michigan Return:

- ◆ Entries are necessary depending on type of benefit – public and private pensions, military pensions, Michigan National Guard pensions, and RRB benefits (for both Tier 1 & Tier 2, blue Form RRB-1099 & green Form RRB-1099-R)

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**Retirement & Pension Benefits
Taxpayers Born Before 1946 (Tier 1) (continued)**

- ◆ The distinction between public and private retirement benefits applies only to taxpayers born before 1946 (Tier 1 taxpayers)
- ◆ Public retirement benefit distributions from the following sources are fully exempt:
 - ❑ Federal civil service
 - ❑ State of Michigan
 - ❑ Michigan local governmental units (e.g., Michigan counties, cities, and school districts)
- ◆ Public retirement benefits from other states are subject to the “private” retirement benefits deduction limit
 - ❑ See Revenue Administrative Bulletin 2018-21, Deduction of Retirement and Pension Benefits Received from a Public Retirement System of Another State, issued in October 2018

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Retirement & Pension Benefits
Taxpayers Born in 1946 through 1952 (Tier 2)

TIER 2: Taxpayers born in 1946 through 1952

- ◆ **BEFORE** taxpayer reaches age 67
 - ❑ Tax year 2019 – This will not be an issue as all taxpayers in Tier 2 will have reached age 67 in 2019.
 - Those born on January 1, 1953, are deemed age 67 for TY2019
 - ❑ If prior years are prepared and the taxpayer has not reached age 67, refer to instructions for:
 - Retirement benefits and pensions that are exempt
 - Limited subtraction on public and private pensions
 - Pensions from employment with governmental agencies not covered by the Social Security Act
 - Retirement benefits from a deceased spouse

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Retirement & Pension Benefits
Taxpayers Born in 1946 through 1952 (Tier 2)

TIER 2: Taxpayers born in 1946 through 1952

- ◆ **AFTER** taxpayer reaches age 67
 - ❑ Social Security is exempt
 - ❑ Railroad and Michigan National Guard pension is exempt
 - ❑ Military compensation and pension is exempt
 - ❑ No longer eligible to deduct retirement and pension benefits
 - ❖ Includes retirement benefits from a deceased spouse – the benefit cannot be subtracted for Tier 2 beneficiaries after they reach age 67
 - ❑ Eligible for standard deduction against all income – see next slide

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Retirement & Pension Benefits
Taxpayers Born in 1946 through 1952 (Tier 2)

TIER 2: Taxpayers born in 1946 through 1952

- ◆ **AFTER** taxpayer reaches age 67
 - ❑ Eligible for standard deduction against all income of \$20,000 for a Single or Married Filing Separately filer, \$40,000 for Married Filing Jointly filers
 - SSA Exempt – Deduction increases to \$35,000 for single filers and \$55,000 for joint filers with pensions from employment with governmental agencies not covered by the Social Security Act (SSA). Increases to \$70,000 for joint filers if both spouses worked for an “uncovered” agency.
 - Not eligible for deduction to extent the exemption for military income, railroad retirement benefits, and Michigan National Guard pension is claimed
 - ❑ Standard deduction is claimed on Schedule 1, line 24

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**Military Pensions
SSA Exempt Employment**

- ◆ Military pensions from U.S. Armed Forces:
 - ❑ IRS Military certification is **NOT** needed in order to prepare tax return with military pensions
- ◆ SSA Exempt Employment
 - ❑ Almost all employment is covered by the federal Social Security Act (SSA)
 - ❑ Most common instances of SSA exempt employment:
 - 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
 - ❑ Federal retirees hired since 1984 and those covered by the Federal Employees' Retirement System are covered under the SSA

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**Retirement & Pension Benefits
Taxpayers Born in 1946 through 1952 (Tier 2)**

TIER 2: Born 1946 through 1952
-- AFTER Taxpayer Reaches Age 67

TAXSLAYER Entries in the Michigan Return (for taxpayers who have reached age 67):

- ◆ Entries are necessary for military compensation, military pension, RRB benefits (for both Tier 1 & Tier 2, blue Form RRB-1099 & green Form RRB-1099-R), and Michigan National Guard pensions to the extent included in AGI
- ◆ Entry(ies) also necessary if pension received from SSA exempt employment

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**Retirement & Pension Benefits
Taxpayers Born after 1952 (Tier 3)**

TIER 3: Taxpayers born after 1952

- ◆ In some situations they are eligible for a subtraction on the Michigan return
- ◆ Don't let the instructions or the TaxSlayer wording mislead you
- ◆ If there is a 1099-R in the return, double-check to ensure the taxpayer born after 1952 doesn't have a subtraction missed on his or her tax return

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**Retirement & Pension Benefits
Taxpayers Born after 1952 (Tier 3)**

TIER 3: Taxpayers born after 1952

◆ **BEFORE taxpayer reaches age 67**

- ❑ Social Security is exempt
- ❑ Railroad and Michigan National Guard pension is exempt
- ❑ Military compensation and pension is exempt
- ❑ Public and private retirement benefits and pensions are taxable in Michigan UNLESS one of three situations applies – see the next slide

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**Subtraction for Retirement & Pension Benefits
Taxpayers Born after 1952 (Tier 3)**

◆ **BEFORE taxpayer reaches age 67 (continued)**

- ❑ Public and private retirement benefits and pensions taxable unless one of the following three situations applies
 - 1) Taxpayer (or spouse if MFJ) has reached age 62 and received a pension from SSA exempt employment
 - May be eligible for a subtraction of \$15,000. (If both spouses on a joint return qualify, the maximum subtraction increases to \$30,000)
 - Note: For tax year 2019, age 62 is reached if born on or after January 1, 1953 but before January 2, 1958

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**Subtraction for Retirement & Pension Benefits
Taxpayers Born after 1952 (Tier 3)**

◆ **BEFORE taxpayer reaches age 67 (continued)**

- ❑ Public and private retirement benefits and pensions taxable unless one of the following three situations applies
 - 2) The older of taxpayer or spouse (if MFJ return) was born after 1/1/1953, received retirement benefits from SSA exempt employment, and was retired as of January 1, 2013
 - Effective with tax year 2018
 - May subtract up to \$35,000 in qualifying retirement and pension benefits if Single or Married Filing Separately or \$55,000 if Married Filing Jointly (If both spouse on a joint return qualify, the maximum subtraction increases to \$70,000)

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**Subtraction for Retirement & Pension Benefits
Taxpayers Born after 1952 (Tier 3)**

◆ **BEFORE taxpayer reaches age 67 (continued)**

- ❑ Public and private retirement benefits and pensions taxable unless one of the following three situations applies
- 3) Taxpayer or spouse (if MFJ return) received retirement and pension benefits from a deceased spouse who was born prior to 1/1/1953
 - Payments made to a surviving spouse can only be subtracted if the employee qualified for the subtraction at the time of death
 - See "Retirement Benefits from a Deceased Spouse" in the MI-1040 instructions (page 16 of the 2018 instructions)

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References

For complete information on retirement and pension benefits and how to handle them on the Michigan tax return, refer to the:

- ❑ Instructions for the MI-1040, the
- ❑ Retirement and Pension Benefits Chart, and
- ❑ Treasury's web page for Retirement and Pension Information

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**Retirement & Pension Benefits
Subtraction on City of Detroit Resident Return**

If pension or retirement benefit included in AGI, follow guidance below for a Detroit Resident return:

- ◆ **Code 1** (early distribution, no known exception) – Always taxable, do not subtract
- ◆ **Code 2** (early distribution, exception applies) – Not eligible for subtraction, unless: Part of series of mainly equal periodic payments made for the life of the employee or the joint lives of the employee and their beneficiary; Early retirement under the terms of the plan
- ◆ **Code 3** (disability) – Eligible for subtraction, even if reported as wages

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Retirement & Pension Benefits
Subtraction on City of Detroit Resident Return (cont.)

- ◆ **Code 4** (death) – Subtract for surviving spouse only and if the decedent would have also qualified for a normal distribution under Distribution Code 7 at the time of death. 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
- ◆ **Code 7** (normal distribution) – Eligible for subtraction

Exception: May not subtract distributions from a plan that allows the employee to set the amount of compensation to be deferred or from a plan that does not prescribe the retirement age or years of service

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Retirement & Pension Benefits
Subtraction on City of Detroit Resident Return (Cont.)

- ◆ Age is not a consideration for the subtraction on the Detroit resident return
- ◆ **Example:** Sally, born in 1959, received a qualified retirement distribution. Box 7 of her 2019 Form 1099-R shows distribution code 3 (disability).
 - ❑ Do not subtract on her 2019 Michigan tax return (Sally falls into the Tier 3 age category, born after 1952. Subtraction for this distribution not allowed.)
 - ❑ Subtraction is allowed on Sally’s 2019 Detroit resident return
- ◆ Subtraction is reported on Form 5118, line 30, subtractions from income for IRA, pension, annuity, or other retirement distribution

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Total Household Resources

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Total Household Resources Defined

- ◆ Total household resources (THR) are 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:
 - ❑ Any net business loss after netting all business income and loss
 - ❑ Any net rental or royalty loss
 - ❑ Any carryback or carryforward of a net operating loss
- ◆ Refer to Revenue Administrative Bulletin (RAB) 2015-18, Income Tax – Total Household Resources Defined (Revenue Administrative Bulletins can be found at: https://www.michigan.gov/taxes/0,4676,7-238-43551_84522---,00.html)

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**Total Household Resources
"Income" and "Household"**

- ◆ "Income" includes both taxable and nontaxable income. Technically: Federal adjusted gross income (AGI) plus all income specifically excluded or exempt from the computation of federal AGI.
- ◆ "Household" is statutorily defined as a *claimant* and spouse.
 - ❑ A claimant is a person who files a property tax or home heating credit. It includes a husband and wife if they are required to file a joint Michigan tax return.

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**Total Household Resources
"Income"**

- ◆ The income of both spouses must be included in THR if:
 - 1) They are required to file a joint state tax return*, even if the husband and wife do not reside together, or
 - 2) They share a home, regardless of their filing status.(*Note: If federal return was filed jointly, taxpayers must file a joint Michigan income tax return.)

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**Total Household Resources
"Income"**

- ◆ In RAB 2015-18, there is a nonexclusive list of income to include in total household resources (THR), as well as a list of items not to include in THR.
- ◆ Other sources also contain similar lists, including the:
 - ❑ Michigan MI-1040 Instructions
 - ❑ Michigan Taxpayer Assistance Manual (TAM)
 - ❑ *Income and Deductible Items, Summary Chart*, located in Chapter 5 of the TAM.
 - ❑ Michigan Tax Text Manual
- ◆ Note that the lists in these various sources may not necessarily be the same. An item may be on one list, but not on another. Or one source may provide more detail.
 - ❑ Reference the various lists in making THR determinations

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**Income Does Not Substantiate
Property Taxes/Rent & Other Living Expenses**

- ◆ **Total household resources does not substantiate rent or property taxes paid plus other living expenses**
 - ❑ Ask filer if they had assistance with paying any of their bills
 - Gifts of cash or merchandise
 - Expenses paid on his or her behalf
 - ❑ If the filer had money that is excludable from THR (e.g., government payments to a third party, loan proceeds, withdrawal from savings, 1099-R gross distribution greater than taxable amount)
 - Prepare a paper return with an explanation attached
 - Attachment should explain in as much detail as possible where the money came from to pay expenses, e.g., list withdrawal dates from savings account and amount withdrawn
 - Include a Note in TaxSlayer
 - ❑ If the filer cannot provide an explanation as to how he or she paid their expenses, we recommend you not prepare the return

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Selected THR Issues

- ◆ Selected total household resources items:
 - ❑ Supplemental Security Income (SSI)
 - ❑ Dependent's Social Security Benefits and SSI
 - ❑ Cash assistance from the Department of Education for the payment of child care
 - ❑ Nontaxable gain from the sale of a main home
 - ❑ Capital loss carryover
 - ❑ Nontaxable scholarships

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Supplemental Security Income

- ◆ Supplemental Security Income (SSI) is administered by the Social Security Administration and is cash assistance for people with limited income and resources who are:
 - ❑ Age 65 or older, or
 - ❑ Blind, or
 - ❑ Disabled
- ◆ SSI is paid on the first of the month
- ◆ Social Security benefits are typically paid on the third of the month, or on the first or third Wednesday of the month
- ◆ Maximum SSI for an individual in 2019 is \$771 per month
- ◆ SSI is reported on the same line as Social Security benefits on the Michigan credit claim forms

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Supplemental Security Income (Continued)

If someone received both SSI and Social Security benefits, and that is their only source of income (other than State SSI):

- ◆ The total of these two sources of income is typically \$20 per month more than the maximum SSI an eligible individual would receive. In 2019, this would be \$791 per month (\$771 + \$20).
- ◆ **Example:** A client brings in their 2019 Form SSA-1099, Social Security Benefits Statement, but isn't sure of the amount of their SSI for the year. Box 5 of the SSA-1099 shows \$7,656.
To determine their SSI:
 - ❑ $\$791 \times 12 \text{ months} = \$9,492$
 - ❑ $\$9,492 - 7,656 = \$1,836$, potential SSI for the year, or \$153 per month
 - ❑ A discussion with the client is warranted to verify that this was the amount they received on the 1st of each and every month in 2019.
 - ❑ If uncertain, ask the client to get a letter from the Social Security Administration stating the total SSI paid to them in the tax year.

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Supplemental Security Income (Continued)

Benefit Amount vs. Net Amount Received

- ◆ If the amount of SSI received each month is less than the benefit amount due to withholding for a prior year overpayment, include the net amount received in total household resources.
 - ❑ **Example:** A person's SSI benefit is \$771 per month, but the amount he or she actually received each month in 2019 was \$751 because the Social Security Administration was withholding \$20 each month for a prior overpayment.
 - The \$751 per month, or \$9,012, is the amount included in THR.
- ◆ If withholding is due to attorney fees or another reason that cannot be categorized as a recovery of prior year(s) income, the gross amount of the benefit awarded should be included in THR.

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State SSI

- ◆ Individuals receiving Supplemental Security Income (SSI) usually also receive State SSI.
- ◆ State SSI is administered by the Michigan Department of Health and Human Services (MDHHS).
- ◆ Individuals typically get \$14 per month, which is paid quarterly in the amount of \$42 each March, June, September and December. The total for the year is \$168.
- ◆ State SSI is included in Total Household Resources and should be reported on the line for *Other nontaxable income*. Do not report it on the line for Social Security/SSI or on the line for FIP and other MDHHS benefits.

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Dependent's Social Security Benefits and SSI

- ◆ Include in total household resources any Social Security benefits and/or Supplemental Security Income received *for* a minor child or dependent adult who lived with the taxpayer.
 - This is where the taxpayer (or spouse) is the payee
 - The entire amount is included in THR on the same line for Social Security benefits and SSI
- ◆ State SSI received *for* a dependent is included on the line for Other nontaxable income.
- ◆ If Social Security benefits and/or SSI is paid directly to the dependent adult, it is not necessarily included in THR.
 - Only include any amount that the dependent contributed to the filer's household and other expenses. Report it on the line for *Gifts or expenses paid on your behalf*.

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TaxSlayer Entries for SSI and for Dependent's Benefits

Homestead Property Tax and Home Heating Credit page in TaxSlayer

- ◆ The total of the income below is entered in one entry box:
 - Supplemental Security Income received by the taxpayer and/or spouse
 - Social Security benefits received *for* a dependent(s)
 - Supplemental Security Income received *for* a dependent(s)
- ◆ Consider using the Notes feature in TaxSlayer to identify the type(s) of benefit and the amount(s) that were entered in the box.

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Cash Assistance from the Department of Education for the Payment of Child Care

- ◆ Parents who receive cash assistance from the Department of Education for the payment of child care must include the total for the tax year in total household resources.
- ◆ It is included in THR regardless of any payments made to the child caregiver.
- ◆ **TaxSlayer Entry:** Payments made to parents from the Department of Education for child care should be reported on the line for Other nontaxable income on the *Homestead Property Tax and Home Heating Credit* page on the parent's return.

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Nontaxable Gain from the Sale of a Home

- ◆ A net capital gain or loss included in AGI will carry forward to the Michigan credit claims
- ◆ Any excluded gain realized from the sale of a main residence must also be included in total household resources
- ◆ **TaxSlayer Entry:** The excluded gain should be shown on the line for capital gains less capital losses of the Michigan credit claims; however, TaxSlayer does not allow for this.
 - Enter the excluded gain in the field for Other nontaxable income on the *Homestead Property Tax and Home Heating Credits* page

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Capital Loss Carryover

- ◆ Be aware that any capital loss carryover, both short-term and long-term, included in AGI is included in THR
- ◆ This is true even if it's the same unused capital loss carryover from a prior year
- ◆ This was confirmed by Michigan Department of Treasury in October 2019
- ◆ TaxSlayer picks up the capital gain (loss) from the federal return; no additional entry is required

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Nontaxable Scholarships and Forgiveness of Debt

- ◆ Nontaxable scholarships
 - ❑ Taxable scholarships included in AGI will carry forward to the Michigan credit claims
 - ❑ Nontaxable scholarships must also be included in THR for the recipient of the scholarship

- ◆ **TaxSlayer Entry:** Enter nontaxable scholarships as Other nontaxable income on the recipient's *Homestead Property Tax and Home Heating Credit* page.

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Deduction for Medical Insurance/HMO Premiums

- ◆ Deduction to arrive at Total Household Resources
- ◆ CAN deduct premiums paid for the claimant and his/her family for:
 - ❑ Medical insurance
 - ❑ Dental insurance
 - ❑ Vision insurance
 - ❑ Prescription drug plan
 - ❑ Automobile insurance (medical care cost only)
- ◆ CANNOT deduct amounts paid for/with:
 - ❑ Long-term disability insurance
 - ❑ Long-term care insurance
 - ❑ Pre-tax payroll contributions for health insurance
- ◆ DO NOT include insurance premiums:
 - ❑ Deducted on the line for Social Security, etc., on the credit claims (i.e. Medicare Parts B, C, and/or D; Medicare Advantage plan)
 - ❑ Deducted on the line for Other adjustments on the credit claims (e.g., self-employed health insurance and Health Savings Account (HSA) deductions from the federal return)

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Deduction for Medical Insurance/HMO Premiums (cont.)

- ◆ If insured through the Marketplace:
 - ❑ Insurance premium must be reduced by the federal Premium Tax Credit
 - ❑ Use federal Form 8962, Premium Tax Credit (PTC), to calculate the net insurance premium
 - The annual total insurance premium (line 11A or the sum of lines 12A through 23A of U.S. Form 8962) **minus** the total premium tax credit (line 24 of U.S. Form 8962) may be claimed

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**Deduction for
Medical Insurance/HMO Premiums (cont.)**

- ◆ Auto PIP (Personal injury protection):
 - ❑ Use \$130 as the allowable amount per insured vehicle paid for the claimant and his/her family
 - ❑ If a higher amount can be proven for the medical care portion of car insurance, the higher amount can be used
 - The medical care portion premium must be clearly identified
(Auto PIP in Michigan covers medical expenses, lost wages, survivor losses, and a certain amount per day for replacement services.)

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Homestead Property Tax Credit Claim

- ◆ Basics of the claim
- ◆ Using Millage Rates to Calculate Property Taxes Levied
- ◆ Mobile Home Park Resident
- ◆ Alternate Housing Facilities
 - ❑ Subsidized Housing and Service Fee Housing
 - ❑ Special Housing

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**Homestead Property Tax Credit
The Basics**

- ◆ Beginning with tax year 2018:
 - ❑ Maximum total household resources is \$60,000
 - ❑ The phase out begins when THR exceeds \$51,000
 - ❑ Maximum credit is \$1,500
 - ❑ Percentage of rent used is 23% (unless service fee housing, then 10%)
 - ❑ The threshold by which property taxes levied or percentage of rent exceeds THR is 3.2% (for most filers)
 - Property taxes and/or percentage of rent minus 3.2% of THR is the beginning calculation for the credit

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**Homestead Property Tax Credit
Criteria**

Who May Claim a Property Tax Credit?

- ◆ An individual who was a resident of Michigan for at least six months
- ◆ The individual was billed for property taxes or paid rent on Michigan homestead
- ◆ The individual must be the occupant as well as the owner or renter (contracted to pay rent)
- ◆ The property must be subject to property tax or a service fee in lieu of property tax
- ◆ Property must have a taxable value of \$135,000 or less
- ◆ Total household resources cannot exceed \$60,000
- ◆ Filers claimed as a dependent must show support on line 24 of the claim (gifts or expenses paid on his or her behalf)

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**Homestead Property Tax Credit
Criteria**

Who May NOT Claim a Property Tax Credit?

- ◆ An individual whose sole source of income is FIP assistance or other MDHHS benefits
- ◆ Those with total household resources over \$60,000
- ◆ Those with homesteads with taxable value over \$135,000

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**Form MI-1040CR-2, Homestead Property Tax Credit
for Veterans and Blind People**

- ◆ Blind homeowners and veterans are eligible to claim the property tax credit using Form MI-1040CR-2, specifically:
 - a. Blind and own your own homestead
 - b. Veteran with service-connected disability or veteran's surviving spouse
 - c. Surviving spouse of veteran deceased in service
 - d. Active military, pensioned veteran or his/her surviving spouse
 - e. Surviving spouse of a nondisabled or nonpensioned veteran of the Korean War, World War II, or World War I
- ◆ For "d" and "e" above, if THR is more than \$7,500 the MI-1040CR-2 cannot be used
- ◆ For veterans who were renters, the non-homestead millage rate is needed
- ◆ Use the claim form that results in the higher credit

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Using Millage Rates to Calculate Property Taxes Levied

- ◆ Basic Calculation:
 - ❑ Taxable Value x Millage Rate x 1.01
 - Up to 1% of administrative fees can be included in taxes claimed; calculation above assumes a 1% admin fee
- ◆ Tips
 - ❑ Make sure the property classification is residential. For Detroit homeowners the classification is 401 Residential.
 - ❑ Use the applicable millage rate based on the Principal Residence Exemption (PRE) and the taxpayer situation
 - ❑ Make sure the correct school district is entered on the return
 - Confirm school district with the client
 - School district for an address can often also be found online

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Using Millage Rates to Calculate Property Taxes Levied

- ◆ Tips (continued)
 - ❑ You can use the millage rates posted on Treasury's web site
 - Go to www.michigan.gov/taxes, click on Property Taxes, then Estimate Your Property Taxes/Millage Rate Information, and then Millage Rates
 - Read the disclaimers at the end of the report (discusses special assessments, community college millage, and properties transferred from one school district to another)
 - Rates for 2019 will be posted in early 2020

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Using Millage Rates to Calculate Property Taxes Levied

- ◆ Principal Residence Exemption
 - ❑ A principal residence exemption (PRE) can be claimed by the homeowner if he/she owns and occupies his/her principal residence
 - ❑ Exempts the property from a portion of local school operating taxes
 - ❑ Homeowners claim the exemption by completing the *Homeowner's Principal Residence Exemption Affidavit*, Form 2368, and file it with their city or township assessor
 - ❑ Most homeowners have a PRE of 100%, indicating entire property is used as their personal residence
 - ❑ If your client doesn't have a PRE and he or she meets the criteria, advise them to file for the exemption

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Using Millage Rates to Calculate Property Taxes Levied

- ◆ Millage Rate – Homestead vs. NonHomestead Rate
 - ❑ If PRE is 100%, use the homestead millage rate
 - ❑ If PRE is 0%, and individual owned and occupied his or her principal residence, use the nonhomestead rate
 - Filer is able to claim the school operating taxes
 - Advise them to file for the principal residence exemption
 - ❑ If PRE is anything other than 100% or 0%, use the homestead rate, but calculation is more complicated. See example on next slides.

Using Millage Rates to Calculate Property Taxes Levied

- ◆ Shared Housing
 - ❑ When two or more single adults share a home, each may file a credit claim if each has contracted to pay rent or owns a share of the home.
 - ❑ Each adult should file an individual claim based on his or her total household resources and prorated share of taxes or rent paid
 - Proration is based on percentage of ownership or tenant names on the lease. It is not based on the amount each owner or renter pays.

Using Millage Rates to Calculate Property Taxes Levied – Examples

- ◆ Example 1 – Taxable value is \$21,000 and homeowner has a PRE of 100%. Homestead millage rate is 67.62270
 - ❑ Calculation: $\$21,000 \times .0676227 \times 1.01 = \$1,434$
 - ❑ Claim \$1,434 as property taxes levied
- ◆ Example 2 – Two siblings both own and occupy a home. Taxable value is \$30,000, PRE is 0%, and nonhomestead millage rate is 85.62270.
 - ❑ Calculation: $\$30,000 \times .0856227 \times 1.01 = \$2,594$
Then $\$2,594 \times 50\% = \$1,297$
 - ❑ Each sibling may claim \$1,297 as property taxes levied
 - ❑ Advise the client to apply for the principal residence exemption

Homestead Property Tax Credit

Alternate Housing Facilities

- Subsidized Housing**
- Service Fee Housing**
- Cooperative Housing**
- Special Housing**

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**Form MI-1040CR, Part 5,
Alternate Housing Facilities**

- ◆ Subsidized housing and service fee housing
 - Report the total amount paid for the year in Part 5 of MI-1040CR , lines 54 – 56, and line 58
 - Do not make an entry in Part 4 for Renters
- ◆ Special housing (Part 5, lines 57 and 58)
 - Report resident’s share of taxes for:
 - Cooperative housing
 - Home for the aged, nursing home, adult foster care home, and paid room and board
- ◆ Note: If completing Form MI-1040CR-2, see the instructions for how to handle residents of special housing

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Subsidized Housing

- ◆ If housing costs (rent) are subsidized:
 - The filer claims only the total he or she paid
 - Amounts paid on his or her behalf by a government agency are not included

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Service Fee Housing

- ◆ What is it?
 - ❑ Housing property that is subject to a service fee in lieu of property taxes
- ◆ What is the impact on the property tax credit claim?
 - ❑ Percentage of rent claimed is 10% instead of 23% that is used for housing subject to property tax
- ◆ When should Treasury's Service Fee Housing list be utilized? (Located at www.michigan.gov/taxes, then click on Tax Professionals)
 - ❑ The list should be referenced often
 - ❑ If client's address is on the list, calculate the credit as service fee housing on the claim
 - ❑ If client disagrees, it is his or her responsibility to find out the correct property tax status before preparing the claim
 - ❖ Client should contact local assessor or property owner

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Subsidized Housing & Service Fee Housing

TaxSlayer entries for two scenarios:

- ◆ If filer's housing was both subsidized housing and service fee housing
 - ❑ Check service fee housing only on the *Occupants of Housing Facility* page
- ◆ Filer lived and rented at service fee housing for part of the year and in subsidized housing for another portion of the year
 - ❑ Mark service fee housing for the period lived at service fee housing
 - ❑ Complete the Renter's section for the period lived in subsidized housing

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Special Housing

- ◆ For complete instruction, refer to the instructions for Form MI-1040CR
- ◆ Also reference RAB 2017-8, Individual Income Tax – Homestead Property Tax Credit for Permanent Resident of Special Housing, for more information:
 - https://www.michigan.gov/documents/treasury/RAB_2017-8_IIT_568670_7.pdf

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Cooperative Housing

- ◆ Cooperative housing corporation resident members:
 - ❑ Claim their share of property taxes on the building
 - ❑ If they lived in a cooperative where residents pay rent on the land under the building, they may also claim 23% of that land rent
 - ❑ DO NOT enter their monthly payment (e.g., carrying charge) on the claim – They are not allowed to claim 23% of their monthly payment.
 - ❑ Residents should receive a letter from management stating their percentage share of taxes
 - Multiply this percentage by the resident's total carrying charges for the year to determine his or her share of property taxes

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Special Housing Defined (per RAB 2017-8)

- ◆ Special housing defined:
 - ❑ Care facilities such as nursing homes, foster care homes, and homes for the aged, (including assisted living facilities), whether licensed or unlicensed
 - ❑ Not subject to the \$135,000 taxable value limitation
 - ❑ It includes apartments for which claimants pay a single monthly charge that covers rent and meals
 - ❑ It *does not* include cooperatives
 - ❑ Special housing is the homestead of a permanent resident

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Special Housing Credit Computation

- ◆ For tax year 2016 and later, claimants in special housing are generally required to use rent to calculate the property tax credit
 - ❑ The claimant must have a monthly statement from the landlord that itemized rent, food, services and other items, **or**
 - ❑ Must obtain a letter from the landlord that states the portion of the monthly payment that is for rent.
 - ❑ Enter the rent paid in the Renters section of the property tax credit claim
- ◆ In order to claim rent, clients will need to show us a monthly bill or a letter that clearly itemizes the rent portion
- ◆ Exception: Credit is not allowed if your care facility charges are paid directly to the facility by a government agency

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**Special Housing
Credit Computation (continued)**

- ◆ If a claimant is unable to determine the portion that constitutes rent, he or she is allowed to use a proportionate share of property taxes levied on the special housing
 - Licensed bed facility – Share of taxes is calculated by dividing the amount of property taxes levied by the number of licensed beds and multiplying that percentage by the property taxes levied on the facility
 - Unlicensed bed facility –Share of taxes may be calculated by dividing the square footage of the apartment/unit by the total square footage of the facility/property and multiplying that percentage by the property taxes levied on the facility

Facility Letter and Form

- ◆ Michigan Department of Treasury issues a *Resident Rent or Share of Facility Property Tax* letter to facilities advising them of what they need to provide their residents
- ◆ The facilities are also asked to complete a form that will assist Treasury in assessing Property Tax Credit Claims.
- ◆ Both the letter and the form (Form 4791) are included in the handouts for your reference

**Special Housing –
Different Living Situations**

- ◆ A Michigan homestead maintained elsewhere by the spouse is considered a part of the same homestead
 - If filing a joint return, spouses combine the THR of each and combine the property taxes or statutory percentage of rent paid for each
- ◆ A single person who is a permanent resident of special housing and also owns the house he or she formerly occupied may claim for credit either:
 - The taxes on the house (if not rented), OR
 - His or her itemized rent paid/share of taxes levied on the facility,
 - But not both

Special Housing – Final Notes

- ◆ Upon request from Michigan Department of Treasury, the claimant must produce a copy of the landlord’s documentation to substantiate the claim
- ◆ Special housing claimants may amend prior year returns that are within the statute of limitations

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Home Heating Credit Claim

- ◆ Some Basics of the Claim
- ◆ Standard Allowance Variations
- ◆ When to File a Manual Claim
- ◆ Heat in Someone Else’s Name

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Home Heating Credit Criteria

Who May Claim a Home Heating Credit?

- ◆ An individual whose homestead is in Michigan
- ◆ The individual must own the home or have a lease agreement to pay rent for the home where they lived
- ◆ The individual cannot live in college- or university-operated housing (including dormitories, residence halls, or apartments)
- ◆ Income must be within the income limits listed in the instructions
- ◆ Filers that can be claimed as a dependent must show support on line 24 of the claim (gifts or expenses paid on his or her behalf)

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**Home Heating Credit Criteria
Who May NOT Claim a Home Heating Credit?**

Who May NOT Claim a Home Heating Credit?

- ◆ A full-time student claimed as a dependent on another person's tax return
- ◆ An individual who lived in a licensed care facility for the *entire* year
- ◆ **Note:** An individual may file a Home Heating Credit Claim regardless if he or she received FIP assistance or other MDHHS benefits
 - ❑ This is unlike the Homestead Property Tax Credit Claim where your credit is prorated based on MDHHS benefits relative to total household resources. And those whose sole source of income is from MDHHS are not eligible to claim the credit.

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**Home Heating Credit Criteria
Licensed Care Facilities**

- ◆ These can include adult foster care homes, licensed homes for the aged, nursing homes, and substance abuse treatment centers
- ◆ If an individual lived in a licensed care facility for only part of the year, he or she may be eligible to claim the credit for the part of the year they lived outside of the facility
 - ❑ The person cannot use the alternate credit to calculate the home heating credit
 - ❑ The standard allowance must be prorated for the number of days the homestead was owned or rented and occupied
- ◆ If one spouse lived in a licensed facility and the other spouse lived in the family homestead
 - ❑ File a joint claim. Do not check line 12 of Form MI-1040CR-7. (In TaxSlayer, do not mark box for a licensed care facility.)

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**Home Heating Credit –
Dependents Filing a Claim**

- ◆ An individual claimed as a dependent is eligible to file for a home heating credit (**Exception:** Full-time students who are claimed as a dependent)
- ◆ If individual can be claimed as a dependent:
 - ❑ Dependent cannot claim a personal exemption (Note: A zero exemption can be claimed. See Table A, Home Heating Credit Standard Allowance, at the back of the instruction book for the Home Heating Credit Claim.)
 - ❑ Dependent's special exemptions can be claimed by either the dependent or the person claiming the dependent, but not both.
 - ❑ Dependent must include on his or her claim the amount of support received over \$300
- ◆ Reference: Pages 3, 4, 7, and 8 of the instructions for the 2018 Home Heating Credit Claim

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**Home Heating Credit –
Dependents Filing a Claim (Continued)**

◆ **TaxSlayer:**

- ❑ Unable to prepare a Home Heating Credit Claim for dependents in the software. A manual return must be prepared and mailed in.
- ❑ Include a Note in the software indicating a manual return was prepared and given to the client to mail. And be sure to enter the credit amount in Custom Credits.

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**Home Heating Credit
Computation**

- ◆ The credit is based on the higher of the standard credit or the alternate credit:
 - ❑ **Standard Credit** computation uses standard allowances established by law based on the number of exemptions claimed (See Table A on page 19 of instructions.)
 - ❑ **Alternate Credit** uses heating costs to compute a credit:
 - For tax year 2019, heating costs is the amount billed for the period 11/01/2018 through 10/31/2019
 - Filers cannot use the alternate credit:
 - If claim is for less than 12 months
 - If heating costs are *currently* included in rent
- ◆ The credit is then reduced by a percentage depending on the amount of federal funding available (75% in 2018, line 44 of MI-1040CR-7)

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**Home Heating Credit
Standard Allowance Variations**

There are five scenarios where the standard allowance from the instructions is **not** used, but either has to be prorated or a share of the allowance has to be calculated:

- ◆ Part-year residents
- ◆ Claims for a single deceased claimant
- ◆ Occupied homestead less than 12 months
- ◆ Shared housing by single adults
- ◆ Married filing separately and shared homestead

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Home Heating Credit
Standard Allowance Variations (continued)

- ◆ Part-year residents
 - ❑ Standard allowance is prorated for number of days owned or rented and occupied Michigan homestead
 - ❑ **TaxSlayer** calculates the prorated standard allowance based on dates of residency entered
 - If the claimant was not a renter or homeowner for the entire period they were a part-year resident, enter the dates they owned or rented and occupied the home at the bottom of the *Home Heating Credit* page
- ◆ Single deceased claimant
 - ❑ Standard allowance is prorated from January 1 to the date of death
 - ❑ **TaxSlayer** calculates the prorated standard allowance based on date of death entered in the return

Home Heating Credit
Standard Allowance Variations (continued)

- ◆ Occupied homestead less than 12 months
 - ❑ Standard allowance is prorated for number of days owned or rented and occupied Michigan homestead
 - Example: Full-year resident but was an eligible renter for just a portion of the year
 - ❑ **TaxSlayer** calculates the prorated standard allowance based on dates of occupancy entered at the bottom of the *Home Heating Credit MI-1040CR-7* page

Home Heating Credit
Standard Allowance Variations (continued)

- ◆ When two or more single adults share a home and each has contracted to pay rent or owns a share of the home:
 - ❑ Each person files a home heating credit based on his or her total household resources and his or her share of the standard allowance (shared housing standard allowance)
 - ❑ See examples on page 5 of the MI-1040CR-7 instructions
 - ❑ **TaxSlayer** does not allow direct entry of a shared housing standard allowance; a manual claim has to be prepared for the client to mail in

**Home Heating Credit
Standard Allowance Variations (continued)**

- ◆ Married filing separately and shared homestead
 - ❑ When filer was separated or divorced during the tax year and does not file a joint income tax return
 - ❑ Home heating credit is based on his or her share of heating costs or exemptions for the period lived with spouse, plus heating costs and exemptions for the period filer did not live with spouse
 - ❑ See page 3 of the MI-1040CR-7 instructions
 - ❑ **TaxSlayer** does not allow direct entry of a standard allowance that must be calculated as described in the instructions; a manual claim has to be prepared for the client to mail in

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**Home Heating Credit –
When to File a Manual Claim**

- ◆ There are three scenarios when a manual claim needs to be prepared for the filer
 - ❑ Dependent filing a claim
 - ❑ Shared housing standard allowance when two or more single adults share a home
 - ❑ Married filing separately and shared a home
- ◆ Access Form MI-1040CR-7 at www.michigan.gov/iit
 - ❑ Complete the form online
 - ❑ Be sure to include the tax site’s SIDN in the Preparer section
 - ❑ Print two copies of the completed form
- ◆ Include a Note in TaxSlayer that a manual claim was prepared and why.

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**Home Heating Credit –
Heat in Someone Else’s Name**

Filers whose heating costs are in someone else’s name (other than the landlord)

- ◆ Do not check the box for if your heating costs are currently included in your rent
- ◆ These filers will receive an Energy Draft which they can’t use
- ◆ Instructions tell them to return the Energy Draft with a note of explanation to Treasury
 - ❑ Treasury will review the explanation and, if appropriate, reissue the credit in the form of a check
 - ❑ It may take 120 days or more to issue the check
 - ❑ If request for a check is denied, filer has the right to a hearing

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**Home Heating Credit –
Heat in Someone Else’s Name (continued)**

Filers whose heating costs are in someone else’s name (other than the landlord)

- ◆ Recommended procedure
 - ❑ Prepare the Home Heating Credit Claim in TaxSlayer
 - ❑ Advise the client that they will receive an Energy Draft for the amount of their credit
 - ❑ They should return the draft to Treasury requesting a check and include a note of explanation

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**Home Heating Credit –
Form Changes for 2019**

Included in your handouts is a document entitled Michigan Treasury Update

- ◆ Changes to Form MI-1040CR-7 include:
 - ❑ Requiring the heat provider name code and heat type code
 - ❑ Requiring the names, Social Security numbers and ages of all household members
 - ❑ Designating each household member’s status as a U.S. citizen or a qualified alien
- ◆ The 2019 form is not yet published
- ◆ We know nothing more than what it indicated on Treasury’s update

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**Various Living Situations for Homestead
Property Tax Credit and Home Heating Credit**

- ◆ If there are multiple persons living in the home:
 - ❑ First make sure this information is entered on page one of the Intake/Interview and Quality Review Sheet, Form 13614-C
 - ❑ Determine any dependency issues.
 - ❑ Is the other person(s) also a claimant for the Michigan credits?
 - Refer to previous slides and the Michigan instruction books.
 - ❑ Did the other person(s) contribute to paying rent, property taxes, or other living expenses?
 - ❑ If there is more than one claimant in the home, concentrate on one claimant at a time.
 - Determine that claimant’s THR without looking at the other claimant’s situation other than to determine what the other claimant contributes to the other’s THR.

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Quizzes and Various Living Situations

- ◆ We'll now go over a few quiz questions and also discuss some different scenarios for two adults sharing a home and other living situations
- ◆ The quizzes and scenarios are in a separate handout

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