

**Accounting Aid Society  
State and City Test  
Tax Year 2013**

**Scenario 1: Bill and Susan Dobson**

Bill and Susan Dobson lived together for the entire year of 2013. They filed their federal returns as Married Filing Separately. They were billed for property taxes on their jointly owned residence.

**Scenario 1: Questions**

1. Bill and Susan's Michigan income tax return(s) must be filed as:
  - a. Married Filing Jointly
  - b. Married Filing Separately
  - c. Either Married Filing Jointly or Married Filing Separately
  - d. Single
2. Bill and Susan are each entitled to file a Homestead Property Tax Credit Claim based on their own Total Household Resources.
  - a. True
  - b. False

**Scenario 2: Phillip Davidson**

Phillip Davidson is 68 years old, born in 1945. He received Social Security benefits of \$9,840 and a pension of \$5,600 in 2013. He did not have Medicare premiums deducted from his Social Security. He was determined previously to be totally and permanently disabled.

Phillip lives in a mobile home park. His lot rent in 2013 was \$250 a month.

**Scenario 2: Questions**

3. How many special exemptions is Phillip entitled to claim for himself in addition to his personal exemption?
  - a. Three
  - b. Two
  - c. One
  - d. None
4. The proper treatment of Phillip's lot rent for the mobile home for Homestead Property Tax Credit purposes is:
  - a. \$250 a month as rent
  - b. \$214 a month as rent
  - c. \$3 per month as property tax and \$247 a month as rent
  - d. No credit allowed as residents of mobile home parks are not eligible to claim the Homestead Property Tax Credit.
5. The amount that Phillip's calculated property tax exceeds 3.5% of his total household resources is \$89. Phillip will receive 100% of this amount on his Homestead Property Tax Credit.
  - a. True
  - b. False

### **Scenario 3: Mary Jones**

Mary Jones, a single taxpayer, age 64 (born in 1949), filed her 2013 federal income tax return showing the following income:

- Pension from Wayne County --\$15,000. Michigan income tax withheld was zero. The Distribution Code on her Form 1099-R is 7.
- Interest from U.S. Savings Bonds -- \$2,200.
- Interest from her savings account -- \$350.

Mary paid rent in 2013 that qualifies for the Michigan Homestead Property Tax Credit.

### **Scenario 3: Questions**

6. Mary's Michigan Income Subject to Tax (before exemptions) is:
  - a. \$17,550
  - b. \$17,200
  - c. \$2,550
  - d. \$350
7. Mary does not need to file a Michigan MI-1040 because her pension income is not subject to tax by Michigan.
  - a. True
  - b. False

### **Scenario 4: Fred Pearson**

Fred Pearson is 46 years old and is totally and permanently disabled. He lived at an Adult Foster Care (AFC) home during the entire year of 2013 and paid the facility \$600 per month. His income for the year consisted of Supplemental Security Income (SSI) of \$8,520 and State SSI of \$168.

### **Scenario 4: Questions**

8. Fred should compute a Homestead Property Tax Credit based on:
  - a. Rent of \$600 per month.
  - b. His share of property taxes assessed on the facility based on the number of actual residents during 2013.
  - c. His share of property taxes assessed on the facility based on the licensed capacity of the AFC home.
  - d. No Homestead Property Tax Credit is allowed for a resident of an AFC home.
9. The \$168 that Fred received as State SSI should be entered on the same line as SSI when entering Total Household Resources on Form MI-1040CR.
  - a. True
  - b. False
10. Fred is not entitled to a Michigan Home Heating Credit as he lived in a licensed care facility for the entire year.
  - a. True

- b. False

### **Scenario 5: Sally Snyder**

Sally Snyder, 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. She was able to catch up in 2013, paying a total of \$1,950; the payment consisted of the following:

- \$700 for taxes levied in 2013
- \$600 for taxes levied in 2012
- \$500 for taxes levied in 2011
- \$150 of interest and penalties

Note: All tax amounts listed above include an administrative fee of 1%.

Sally's only income is from wages of \$10,000. Sally pays for her own health insurance as her employer does not provide coverage. She paid a \$100 monthly medical insurance premium in 2013.

### **Scenario 5: Questions**

11. Sally's Michigan Homestead Property Tax Credit Claim for 2013 should be based on:
  - a. \$700
  - b. \$1,300
  - c. \$1,800
  - d. \$1,950
12. Sally can include administrative fees of up to 1% in her taxes claimed for the Michigan Homestead Property Tax Credit.
  - a. True
  - b. False
13. If Sally was eligible but did not file for the Home Heating Credit in 2011 and 2012, she can file claims for those years.
  - a. True
  - b. False
14. The health insurance premiums that Sally paid in 2013 do not need to be considered in calculating her Homestead Property Tax Credit.
  - a. True
  - b. False

### **Scenario 6: Tom and Sue Jackson**

Tom and Sue Jackson filed joint federal and Michigan income tax returns. Because Tom owes back child support, they are concerned that their joint refund will be taken for his obligation. You prepared Form 8379, Injured Spouse Allocation, as part of the federal return.

#### **Scenario 6: Question**

15. With regard to the Michigan return you should:
- a. Advise the client that the Form 8379 covers both federal and state refunds.
  - b. Advise the client that half of their state refund will be automatically applied against Tom's debt for child support.
  - c. Advise the client that they can't prevent their state refund from being applied against Tom's debt for child support.
  - d. Advise the client that if their state refund is to be applied against Tom's debt for child support, they will receive a form from the State of Michigan for allocation of income that must be completed accurately and timely.

### **Scenario 7: William Smith**

William Smith lives in Hamtramck. He is 70 years old and single. He had the following income in 2013:

- A retirement pension of \$12,000 from an automobile company. The Distribution Code on his Form 1099-R is 7.
- U.S. Savings Bond interest of \$100.
- Interest from a credit union savings account of \$50.

#### **Scenario 7: Questions**

16. William is required to file a Hamtramck city income tax return.
- a. True
  - b. False
17. William's U.S. Savings Bond interest is potentially subject to tax by Hamtramck (note: disregard the effect of personal exemptions).
- a. True
  - b. False

### **Scenario 8: Jack Franklin**

Jack Franklin lives in Highland Park and works in Detroit. His 2013 Form W-2 indicates wages of \$9,000 and there is city income tax withheld of \$45 for the city of Detroit. No taxes were withheld for Highland Park.

### **Scenario 8: Questions**

- 18.** Jack should:
- a. File a Detroit city return only as no taxes were withheld for the city of Highland Park.
  - b. File returns for both Highland Park and Detroit and pay tax to both without any offsetting credit.
  - c. File returns for both Highland Park and Detroit and claim a credit on the Highland Park return for the full amount of tax withheld for Detroit without regard to any limitation.
  - d. File returns for both Highland Park and Detroit and claim a credit on the Highland Park return for the amount of tax paid to Detroit subject to a limitation.
- 19.** To compute a credit for city income taxes paid to Detroit, Jack's Highland Park city return should be prepared first.
- a. True
  - b. False
- 20.** Jack should be advised that he might be liable for estimated tax to Highland Park.
- a. True
  - b. False