

MEIC
State & Local Tax Training

Michigan Issues

- Income Tax Issues
- Michigan Credit Claims
- Quizzes
- Various Living Situations

November 17, 2017

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- ◆ References to tax law and forms are for tax year 2016. Updates for 2017 will be provided if known.
- ◆ Any TaxSlayer screenshots are from the Practice Lab 2016 in October 2017.

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Michigan Income Tax Issues

- ◆ Subtractions from Income – Retirement and Pension Benefits

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Subtraction from Income for Retirement & Pension Benefits

- ◆ The next few slides will discuss the subtraction from income on the Michigan return for the various types of retirement income.
- ◆ We won't discuss tax law in detail.
- ◆ Topics of discussion include:
 - ❑ Military and Michigan National Guard retirement benefits
 - ❑ Railroad Retirement Board benefits
 - ❑ Social Security benefits
 - ❑ Other public or private retirement benefits reported on Form 1099-R, Box 7, Distribution codes 1 through 7
 - ❑ Retirement income from employment not covered by the Social Security Act
 - ❑ For tax year 2017, taxpayers born January 1, 1951 and taxpayers born January 1, 1956

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Subtraction from Income for Retirement & Pension Benefits

- ◆ Regardless of date of birth, the following are **not** taxed:
 - ❑ US Military pensions
 - ❑ Michigan national Guard pensions
 - ❑ Social Security benefits
 - ❑ Railroad Retirement benefits

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Military 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 benefits, both Tier 1 and Tier 2, are also subtracted on line 11 of Schedule 1.
- ◆ These amounts should also be included on Michigan’s Schedule W in Table 2 regardless of any state tax withholding.

TaxSlayer entries for Military and Michigan National Guard benefits

- ◆ It appears an entry will still be needed in the Michigan return for the subtraction

TaxSlayer entries for Railroad Retirement Board benefits

- ◆ No additional entries needed in the Michigan return – both Tier 1 benefits (entered on the *Social Security SSA-1099/RRB-1099 Tier 1* page) and Tier 2 benefits (entered on the *RRB-1099-R* page) will carryforward as a subtraction to the Michigan return.

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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:** This amount carries forward from the federal return; no additional entries needed. (Note: Social Security benefits are entered on the *SSA-1099* page in TaxSlayer.)

(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. 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 benefits 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:
 - ❖ Form 1099-R distribution code (Box 7)
 - ❖ Then use the appropriate age category – Tier 1, Tier 2 or Tier 3

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

Below and on the next slide are the eligibility descriptions for distribution codes 1 through 7 shown in Box 7 of Form 1099-R:

- ◆ 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.

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**Form 1099-R, Box 7, Distribution Code
-- Distribution Codes 1 through 7 (Cont.)**

- ◆ 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 Benefits from Employment
not Covered by the Social Security Act**

- ◆ Pensions from employment not covered by the federal Social Security Act increase the pension and retirement subtraction or the Michigan standard deduction for certain taxpayers.
- ◆ Almost all employment is covered by the Social Security Act.
- ◆ Some common instances of pension and retirement benefits from employment not covered by the Act are:
 - 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 Social Security Act.

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Tax Year 2017: Taxpayers born on 1/1/1951 and on 1/1/1956

- ◆ Taxpayers born on 1/1/1951 (Tier 2) are deemed age 67 at 12/31/2017 and are eligible for the Michigan standard deduction.
- ◆ Taxpayers born on 1/1/1956 (Tier 3) AND who received a retirement benefit from employment with a government agency not covered by the Social Security Act are deemed age 62 at 12/31/2017 and could get an increased subtraction.
- ◆ Separate instructions for taxpayers born on these dates is available at www.michigan.gov/it
- ◆ **TaxSlayer:** It is unclear at the time of this presentation how the software handles these taxpayers. In the past, paper returns had to be filed for these situations.

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Michigan Credit Claims

- ◆ Total Household Resources
- ◆ Homestead Property Tax Credit Claim
- ◆ Home Heating Credit Claim
- ◆ Quizzes and Various Living Situations

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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: <http://www.michigan.gov/taxes/0,4676,7-238-43551---,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 husband and wife 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.

(Details are discussed on later slides.)

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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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Items Not Included in Total Household Resources

- ◆ **Some items not included in THR include:**
 - ❑ Money received from a government unit such as FEMA to repair or improve the homestead
 - ❑ Government payments to a third party (see page 4 of RAB 2015-18 for examples)
 - ❑ Money from loan proceeds and withdrawals from savings
- ◆ **THR does not substantiate rent or property taxes paid plus living expenses**
 - ❑ If the claimant had money that is excludable from THR and it was used to pay rent, property taxes and/or living expenses, a paper return is warranted with an explanation attached.

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THR Issues at Volunteer Tax Sites

- ◆ Some total household resources issues encountered with returns prepared at volunteer tax sites include:
 - ❑ Supplemental Security Income (SSI)
 - ❑ State 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
 - ❑ Nontaxable scholarships
 - ❑ Forgiveness of debt

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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 2017 is \$735 per month (Note: Maximum SSI amount in 2018 for an individual is \$750/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 2017, this would be \$755 per month (\$735 + \$20).
- ◆ **Example:** A client brings in their 2017 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 \$7,452.
To determine their SSI:
 - $\$755 \times 12 \text{ months} = \$9,060$
 - $\$9,060 - 7,452 = \$1,608$, SSI for the year, or \$134 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 2017.
 - 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 \$735 per month, but the amount he or she actually received each month in 2017 was \$715 because the Social Security Administration was withholding \$20 each month for a prior overpayment.
 - The \$715 per month, or \$8,580, 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 *Other nontaxable income* line.

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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 household expenses.

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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)
- ◆ There is not a feature available that would allow entering amounts separately so that there is a record in the software of amounts included in the line for *Social Security, SSI, and/or railroad retirement benefits* on the credit claim.
- ◆ An option would be to use 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 shown on federal Schedule D 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. It is not known at the time of this presentation if TaxSlayer has added an additional entry field in the Michigan section of the software.
 - If no specific field to enter an excluded gain, enter it in the field for Other nontaxable income on the *Homestead Property Tax and Home Heating Credits* page

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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 the THR for the recipient of the scholarship; specifically, nongovernmental scholarship, stipend or grant payments paid directly to an educational institution
- ◆ Forgiveness of debt, even if excluded from AGI
 - Example: Qualified principal residence indebtedness
- ◆ **TaxSlayer Entry:** Both of these amounts should be entered as Other nontaxable income on the *Homestead Property Tax and Home Heating Credit* page.

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Homestead Property Tax Credit Claim

- ◆ Criteria and Computation
- ◆ Special Housing
- ◆ Service Fee and Subsidized Housing

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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 \$50,000
- ◆ 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 Computation & Calculation

MI-1040CR, lines 33-35

1. The standard credit calculation begins with the amount by which the property taxes levied or percentage of rent paid exceed 3.5% (for most filers) of total household resources (THR)
 - a. For certain other claimants, the percentage of THR is reduced when total household resources is \$6,000 or less
(See TABLE 2 on the next slide and in the instructions for MI-1040CR.)

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Homestead Property Tax Credit Computation & Calculation

**MI-1040CR TABLE 2:
PERCENT OF TAXES NOT REFUNDABLE
ALL GENERAL CLAIMANTS**

Income	% of Income
\$0 - \$50,000	3.5%

OTHER CLAIMANTS *

Income	% of Income
\$3,000 or less	0%
\$3,001 - \$4,000	1%
\$4,001 - \$5,000	2%
\$5,001 - \$6,000	3%
More than \$6,000	3.5%

*Other claimants are senior citizens or people who are paraplegic, hemiplegic, quadriplegic, deaf, or totally and permanently disabled or unmarried spouse of an individual 65 or older.

Line 34 of MI-1040CR – Use percentage from TABLE 2 for other claimants if THR is \$6,000 or less

(See subsequent slide in this presentation regarding Annualizing Household Resources for part-year resident or deceased claimant.)

Other claimants are senior citizens or people who are paraplegic, hemiplegic, quadriplegic, deaf, or totally and permanently disabled or unmarried spouse of an individual 65 or older.

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Homestead Property Tax Credit Computation & Calculation

MI-1040CR, Part 1, lines 36-41

2. Allowable computation based on the claimant status:
 - a. **Senior claimants** (65 or older, or unremarried spouse of person 65 or older at time of death) – If THR is above \$21,000, there is a senior credit reduction (See TABLE A on the next slide and in the instructions for the MI-1040CR)
 - a. **Disabled claimants** – no further computation at this point
 - b. **All other claimants** – Multiply by 60% the amount by which property taxes or percentage of rent exceed 3.5% (or other percentage) of THR

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Homestead Property Tax Credit Computation – Table 2 and Table A

MI-1040CR TABLE A: SENIOR CREDIT REDUCTION	
Total Household Resources	Percentage
\$21,000 or less	100% (1.00)
\$21,001 - \$22,000	96% (0.96)
\$22,001 - \$23,000	92% (0.92)
\$23,001 - \$24,000	88% (0.88)
\$24,001 - \$25,000	84% (0.84)
\$25,001 - \$26,000	80% (0.80)
\$26,001 - \$27,000	76% (0.76)
\$27,001 - \$28,000	72% (0.72)
\$28,001 - \$29,000	68% (0.68)
\$29,001 - \$30,000	64% (0.64)
\$30,001 - \$50,000	60% (0.60)

Line 37 of MI-1040CR –
Enter percentage from TABLE A for senior claimants

(See subsequent slide in this presentation regarding Annualizing Household Resources for part-year resident and deceased claimant.)

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Homestead Property Tax Credit Computation & Calculation

MI-1040CR, Part 2, lines 42-44

3. MI-1040CR, line 42 – The property tax credit calculation begins with the credit amount that was computed based on the claimant status
 - a. If the filer received FIP or other benefits from the Michigan Department of Health & Human Services (MDHHS), his/her credit is prorated based on the ratio of income from other sources to total household resources (See Worksheet 3 on subsequent slide and in the instructions for the MI-1040CR.)
4. MI-1040CR, line 43 – For all claimants, there is a phase out of the credit if THR is above \$41,000 (See TABLE B on subsequent slide and in the instructions for the MI-1040CR.)

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Homestead Property Tax Credit Computation & Calculation

5. MI-1040CR, line 44 – Property Tax Credit

a. The credit amount from line 42 is multiplied by the percentage on line 43 (100% or phase out percentage from TABLE B) to determine the amount of the property tax credit

MI-1040CR, Part 2, lines 42-44

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Homestead Property Tax Credit Computation & Calculation – Worksheet 3

MI-1040CR WORKSHEET 3: FIP/MDHHS BENEFITS

A. Enter amount from line 27 (FIP and other MDHHS benefits) _____

B. Enter amount from line 33 (Total Household Resources) _____

C. Subtract line A from line B (if amount is a negative value, enter "0") _____

D. Divide line C by line B and enter percentage here _____

E. If you checked only box 5a, enter the amount from line 38. If you checked box 5b, enter the amount from line 39. All others, enter the amount from line 41 here (maximum \$1,200) _____

F. Multiply line E by line D. If you are age 65 or older and you rent your home, enter amount here and on line A of Worksheet 4. Otherwise, enter here and on your MI-1040CR, line 42 _____

Line 42 of MI-1040CR – If the filer received FIP or other benefits from MDHHS, complete Worksheet 3

(Note: If the filer's income is entirely from MDHHS, they are not entitled to a property tax credit.)

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Homestead Property Tax Credit Computation & Calculation – Table B

Line 43 of MI-1040CR – Enter percentage from TABLE B

**MI-1040CR TABLE B:
HOMESTEAD PROPERTY TAX CREDIT PHASE OUT**

Total Household Resources	Percentage
\$41,000 or less	100% (1.00)
\$41,001 - \$42,000	90% (0.90)
\$42,001 - \$43,000	80% (0.80)
\$43,001 - \$44,000	70% (0.70)
\$44,001 - \$45,000	60% (0.60)
\$45,001 - \$46,000	50% (0.50)
\$46,001 - \$47,000	40% (0.40)
\$47,001 - \$48,000	30% (0.30)
\$48,001 - \$49,000	20% (0.20)
\$49,001 - \$50,000	10% (0.10)
\$50,001 - above	0% (0.00)

(Note: See subsequent slide in this presentation regarding Annualizing Household Resources for part-year resident and deceased claimant.)

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Homestead Property Tax Credit

- ◆ The credit maximum is \$1,200 through tax years 2017
- ◆ Changes beginning in 2018:
 - Percentage of gross rent changes from 20% to 23% of rent
 - 3.5% of THR (used for most claimants) changes to 3.2%
 - Maximum credit will be \$1,500

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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:
 - Blind and own your own homestead
 - Veteran with service-connected disability or veteran's surviving spouse
 - Surviving spouse of veteran deceased in service
 - Active military, pensioned veteran or his/her surviving spouse
 - Surviving spouse of a nondisabled or nonpensioned veteran of the Korean War, World War II, or World War I
- ◆ Use the claim form that results in the higher credit

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Special Housing

Revenue Administrative Bulletin (RAB) 2017-8

*Individual Income Tax –
Homestead Property Tax Credit for
Permanent Resident of Special Housing*

Approved: May 15, 2017

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**Revenue Administrative Bulletin 2017-8
Individual Income Tax – Homestead Property Tax Credit
for Permanent Resident of Special Housing**

Revenue Administrative Bulletin (RAB) 2017-8 describes how to properly calculate and claim a homestead property tax credit for people who are permanent residents of special housing situations.

- ◆ Special housing defined:
 - ❑ Care facilities such as nursing homes, foster care homes, and homes for the aged, 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
- ◆ Senior claimants living in special housing may use the alternate senior homestead property tax credit

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**Revenue Administrative Bulletin 2017-8
Individual Income Tax – Homestead Property Tax Credit
for Permanent Resident of Special Housing (Continued)**

Additionally:

- ◆ The special housing is the homestead of a permanent resident
- ◆ A Michigan homestead maintained elsewhere by the spouse is considered a part of the same homestead.
- ◆ If filing a joint return, spouses may claim only one joint credit between them by combining the THR of each and combining the property taxes or statutory percentage of rent paid for each
- ◆ Spouses who file separate Michigan returns and who did not share a household during the tax year may each claim a credit
- ◆ A single person who is a permanent resident of special housing and also owns the house he/she formerly occupied may claim for credit either the taxes on the house (if not rented) or his/her share of the taxes paid by the facility or home, but not both

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**Revenue Administrative Bulletin 2017-8
Individual Income Tax – Homestead Property Tax Credit
for Permanent Resident of Special Housing (Continued)**

For more detailed instructions on living situations, refer to the Instructions for the 2017 MI-1040CR

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**Revenue Administrative Bulletin 2017-8
Credit Computation**

- ◆ For tax year 2016 and after, 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 on the claim form and in TaxSlayer

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**Revenue Administrative Bulletin 2017-8
Credit Computation**

- ◆ A claimant is allowed to use a proportionate share of property taxes levied on the special housing if he or she is unable to determine the portion that constitutes rent
 - ❑ For a licensed bed facility, the proportionate share is generally calculated by dividing the amount of property taxes levied by the number of licensed beds
 - ❑ For special housing that is not a licensed bed facility, the proportionate share may be calculated by dividing the total square footage of the facility or property by the amount of square footage the claimant occupies

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**Revenue Administrative Bulletin 2017-8
Alternate Senior Homestead Property Tax Credit**

- ◆ Special housing claimants who rent and are senior citizens may use an alternate formula to claim the homestead property tax credit:
 - ❑ Claimants who are 65 or older can use this alternate credit if it provides a greater credit amount (calculated on Worksheet 4 in the instructions)
 - ❑ If actual rent is not known and has not been itemized, they cannot use the alternate credit
- ◆ See a previous slide for a screenshot of Worksheet 4

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Revenue Administrative Bulletin 2017-8

Final Notes:

- ◆ Upon request from Michigan Department of Treasury, the claimant must produce a copy of the landlord's documentation to substantiate the claim
 - The client must have an itemized monthly statement from the landlord or have a letter that states the portion of their monthly payment that constitutes rent in order for our tax sites to prepare a claim using rent for special housing
- ◆ Special housing claimants may amend prior year returns that are within the statute of limitations.
- ◆ See page 5 of the RAB for allocation of monthly rent where the government pays a portion of the filer's monthly bill

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Homestead Property Tax Credit

**Service Fee Housing
&
Subsidized Housing**

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**Homestead Property Tax Credit
Service Fee Housing**

- ◆ What is it?
 - Housing property that is subject to a service fee in lieu of taxes
- ◆ What is the impact on property tax credit claim?
 - The percentage of rent claimed is 10% instead of the 20% that is used for housing subject to property tax
- ◆ When should Treasury's Service Fee Housing list be utilized?
 - The list should be referenced often
 - If the client's address is found on the list, we must calculate the credit as service fee housing on the claim
 - If client disagrees, it is his/her responsibility to find out the correct property tax status before we will prepare the claim for them

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**Homestead Property Tax Credit
Service Fee Housing & Subsidized Housing**

TaxSlayer entries for two scenarios (TY 2016 software):

- ◆ If filer's housing was both subsidized housing and service fee housing
 - Indicate 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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Home Heating Credit Claim

- ◆ Criteria and Computation

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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 claimed as a dependent must show support on line 24 of the claim (gifts or expenses paid on his/her behalf)

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**Home Heating Credit
Criteria**

Who May NOT Claim a Home Heating Credit?

- ◆ A full-time student claimed as a dependent on another person's tax return
 - **Note:** A dependent that was *not* a full-time student is eligible to claim the credit, claiming a zero personal exemption on the claim
 - A manual claim will have to be prepared in this situation, as TaxSlayer does not generate a home heating credit claim for a taxpayer claimed as a dependent
- ◆ An individual who lived in a licensed care facility for the entire year

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**Home Heating Credit
Criteria**

Licensed Care Facilities

- ◆ These can include adult foster care homes, 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 other part of the year
 - 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
Exemptions**

Line 13 of MI-1040CR-7

- ◆ It is critical to claim all exemptions to which the filer is entitled
 - Missing an exemption can reduce the credit by a significant amount for the client
- ◆ The exemptions are similar to those claimed on the MI-1040 that apply to the filer, spouse and dependent(s)

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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

- ◆ The 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

- ◆ The alternate credit uses heating costs to compute a credit
 - ❑ For tax year 2017, heating costs is the amount billed for the period 11/01/2016 through 10/31/2017.
 - ❑ Filers cannot use the alternate credit,
 - If claim is for less than 12 months
 - If heating costs are currently included in rent

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**Home Heating Credit
Standard Credit**

Lines 35-38 of MI-1040CR-7

- ◆ The standard credit begins with the amount by which the standard allowance exceeds 3.5% of total household resources
- ◆ If heat is **currently** included in rent, the credit must be reduced by 50%

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**Home Heating Credit
Alternate Credit**

Lines 39-42 of MI-1040CR-7

- ◆ The alternate credit begins with the amount by which the heating costs (limited to \$2,642 in 2016) exceed 11% of total household resources
- ◆ This amount is then multiplied by 70% to determine the alternate credit

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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

- ◆ 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
- ◆ 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

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Home Heating Credit Standard Allowance Variations

- ◆ Occupied homestead less than 12 months
 - Standard allowance is prorated for number of days owned or rented and occupied Michigan homestead
 - E.g., 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* page

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**Home Heating Credit
Standard Allowance Variations**

- ◆ Shared housing standard allowance
 - ❑ 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
 - ❑ See examples on page 5 of the MI-1040CR-7 instructions
 - ❑ TaxSlayer does not allow direct entry of the shared housing standard allowance; a manual claim has to be prepared for the client to mail in

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**Home Heating Credit
Standard Allowance Variations**

- ◆ 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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**Various Living Situations for
Homestead Property Tax Credit
and Home Heating Credit – Who is Eligible?**

When determining if a client is eligible to claim any of the Michigan credit claims, first consider the criteria for filing the claim:

- ◆ Has he or she contracted to pay rent or own the home lived in for the tax year? The answer must be yes in order to claim each of these credits.
- ◆ For the property tax credit:
 - ❑ Was the client a resident of Michigan for at least six months of the tax year?
- ◆ For the home heating credit, client cannot claim the credit if any of the following apply; the client:
 - ❑ Is a full-time student claimed as a dependent on another return.
 - ❑ Lived in a licensed care facility for the *entire year*.
 - ❑ Lived in college- or university-operated housing.

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

- ◆ Once it's established that the client can claim the credit(s):
 - ❑ Determine total household resources
 - ❑ Determine rent paid or property taxes levied
 - ❑ Assess if the client's THR substantiates the taxes or rent paid plus all other living expenses
 - ❑ Determine eligibility for standard and alternate credits for the Home Heating Credit Claim

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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,
 - ❑ Are there other claimants in the home?
 - Refer to a previous slide and the Michigan instruction books.
 - ❑ Determine any dependency issues.
 - ❑ 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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