

**MEIC**  
**State & Local Tax Training**

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**Michigan Issues**

Income Tax Issues  
Michigan Credit Claims  
Quizzes  
Various Living Situations

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November 14, 2018

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- ◆ References to tax law are for tax year 2018.
- ◆ References to tax forms are to 2017 Michigan forms. (Updates for 2018 will be provided if known.)
- ◆ Any TaxSlayer screenshots are from the Practice Lab 2017 taken in November 2018. (Updates for TaxSlayer 2018 will be provided if known.)

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**Michigan Income Tax Issues**

- ◆ Personal and Dependent Exemptions
- ◆ Subtractions from Income – Retirement and Pension Benefits

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**Michigan Personal and Dependent Exemptions – 2018**

- ◆ Treasury will continue the exemption allowance for Michigan
- ◆ The exemption allowance for 2018 is \$4,050
- ◆ Unknown (as of 11/12/2018) is:
  - Claiming the exemption on the 2018 MI-1040

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**Michigan Special Exemptions – 2018**

- ◆ The amount allowed for special exemptions is \$2,700 for 2018
- ◆ Can be claimed for taxpayer, spouse and dependents who are deaf, blind, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled
  - Cannot claim an exemption for totally and permanently disabled once the individual reaches age 66
- ◆ Only one special exemption can be claimed for an individual
- ◆ Note: An additional exemption of \$400 may be claimed for qualified disabled veterans
  - Can be claimed for taxpayer, spouse, and dependents
  - May not be claimed on more than one tax return

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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 and pension 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 2018, taxpayers born January 1, 1952 and taxpayers born January 1, 1957

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**Retirement and Pension Benefits that are Not Taxed**

- ◆ Regardless of date of birth, the following are **not** taxed in Michigan:
  - 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 (RRB) 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 entry for Military and Michigan National Guard benefits:**
  - An entry is needed in the Michigan return for the subtraction
- ◆ **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 on Michigan Schedule 1, line 11, of any taxable Tier 1 and Tier 2 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:** 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.  
**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 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:
  - 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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### Step 1: 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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**Step 1: 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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**Step 2: 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

For complete information on the subtraction of the various retirement and pension benefits received by taxpayers, 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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**Public Retirement Benefits**

- ◆ The distinction between public and private retirement benefits applies only to taxpayers born before 1946 (Tier 1 taxpayers)
- ◆ Federal and Michigan public retirement benefits are fully exempt
- ◆ Public retirement benefits from other states are subject to the “private” retirement benefits deduction limit
  - The 2018 “private” retirement benefits deduction limit for those born before 1946 is \$51,570 for a single filer and \$103,140 for joint filers.
  - RAB 2018-21, Deduction of Retirement and Pension Benefits Received from a Public Retirement System of Another State, was issued in October 2018

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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 2018: Taxpayers born on 1/1/1952 and on 1/1/1957**

- ◆ Taxpayers born on 1/1/1952 (Tier 2) are deemed age 67 at 12/31/2018 and are eligible for the Michigan standard deduction.
- ◆ Taxpayers born on 1/1/1957 (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 12/31/2018 and could get an increased subtraction.
- ◆ Separate instructions for taxpayers born on these dates is available at [www.michigan.gov/iit](http://www.michigan.gov/iit)
- ◆ **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: [https://www.michigan.gov/taxes/0,4676,7-238-43551\\_84522---,00.html](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 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.

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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 this is the case and 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 2018 is \$750 per month (Note: Maximum SSI amount for an individual in 2019 is \$771/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 2018, this would be \$770 per month (\$750 + \$20).
- ◆ **Example:** A client brings in their 2018 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:
  - $\$770 \times 12 \text{ months} = \$9,240$
  - $\$9,240 - 7,452 = \$1,788$ , SSI for the year, or \$149 per month
  - A discussion with the client is warranted to verify that this was the amount they received on the 1<sup>st</sup> of each and every month in 2018.
  - 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 \$750 per month, but the amount he or she actually received each month in 2018 was \$730 because the Social Security Administration was withholding \$20 each month for a prior overpayment.
    - The \$730 per month, or \$8,760, 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*.

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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. 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)
- ◆ 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 claims.
- ◆ 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 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
- ◆ **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**

- ◆ What's New?
- ◆ Criteria and Computation
- ◆ Alternate Housing Facilities
  - ❑ Subsidized Housing and Service Fee Housing
  - ❑ Special Housing

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**What's New?**

- ◆ Beginning with tax year 2018:
  - ❑ Maximum total household resources increases from \$50,000 to \$60,000
  - ❑ The phase out begins when THR exceeds \$51,000 (was \$41,000 in prior years)
  - ❑ Maximum credit increases from \$1,200 to \$1,500
  - ❑ Percent of rent increases from 20% to 23%
  - ❑ The threshold by which property taxes levied or percentage of rent exceeds THR decreases from 3.5% to 3.2% (i.e., property taxes/percentage of rent minus 3.2% of THR)

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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 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 3.2% (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	
<i>Income</i>	<i>% of Income</i>
\$0 - \$50,000	3.5%

  

OTHER CLAIMANTS*	
<i>Income</i>	<i>% of Income</i>
\$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 unremarried spouse of an individual 65 or older.

NOTE: Table 2 is from the 2017 instructions. It will be revised to reflect the increased THR limit of \$60,000 for 2018 and 3.2% of income

**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 unremarried spouse of an individual 65 or older. (Also includes blind claimants.)

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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 3.2% (or other percentage) of THR

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**Homestead Property Tax Credit  
Annualizing Total Household Resources**

**Annualizing Total Household Resources**

If filing a part-year credit (for a deceased taxpayer or for a part-year resident), THR must be annualized in the following scenarios (see page 28 of the 2017 MI-1040 instructions book):

- ◆ TABLE 2, Percent of Taxes Not Refundable – If annualized THR is less than \$6,000 and filer checked a box on line 5 (age 65 or older, or disability exemption), use annualized THR to determine percentage from Table 2
- ◆ TABLE A, Senior Credit Reduction – Senior, age 65 or older, filing a part-year credit must use annualized THR to determine percentage to use from Table A
- ◆ TABLE B, Property Tax Credit Phase Out – Use annualized THR to determine the percentage allowable from Table B

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**Homestead Property Tax Credit  
Annualizing Total Household Resources**

**Annualizing Total Household Resources (continued)**

To annualize total household resources – project what it would have been for a full year:

1. Divide 365 (for tax year 2018) by the number of days the taxpayer was a Michigan resident in 2018
2. Multiply the answer from step 1 by the taxpayer’s total household resources (MI-1040CR, line33).  
The result is the annualized THR.

Example: Part-year resident for 334 days in 2018 (02/01 - 12/31/2018), THR is \$5,698.

- Annualized THR is \$6,227 (365/334 days x \$5,698)

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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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**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)
  - 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 housing listed above

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**Homestead Property Tax Credit  
 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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**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 the property tax credit claim?
  - The percentage of rent claimed is 10% instead of the 23% 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, 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 the claim is filed

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**Homestead Property Tax Credit  
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](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 use their monthly payment (e.g., carrying charge) to claim the credit

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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, 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
- ◆ Senior claimants living in special housing may use the alternate senior homestead property tax credit

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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, and in TaxSlayer

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**Special Housing  
Credit Computation (continued)**

- ◆ 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
  - ❑ Licensed bed facility – the proportionate share of taxes is generally calculated by dividing the amount of property taxes levied by the number of licensed beds
  - ❑ Unlicensed 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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**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, Alternate Property Tax Credit for Renters Age 65 or Older

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**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 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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**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
- ◆ If a governmental entity pays for a portion of the monthly special housing bill directly to the care facility, the amount of rent used for determining the credit is calculated by taking the ratio of the monthly rent payment over the total monthly bill and multiplying that percentage by the monthly amount paid by the claimant

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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?**

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?**

**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:** 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

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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:
  - 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.)
  - The **Alternate Credit** uses heating costs to compute a credit:
    - For tax year 2018, heating costs is the amount billed for the period 11/01/2017 through 10/31/2018
    - 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 2017, line 44 of MI-1040CR-7)

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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 \$2,741 in 2018) 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 (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
- ◆ 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 (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* page

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**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

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**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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**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
  - Determine eligibility for standard and alternate credits for the Home Heating Credit Claim, and determine annual heating costs, if applicable
  - Assess if the client's THR substantiates the taxes or rent paid plus heating costs, if applicable, and all other living expenses

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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 slides 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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