



# City Tax Law

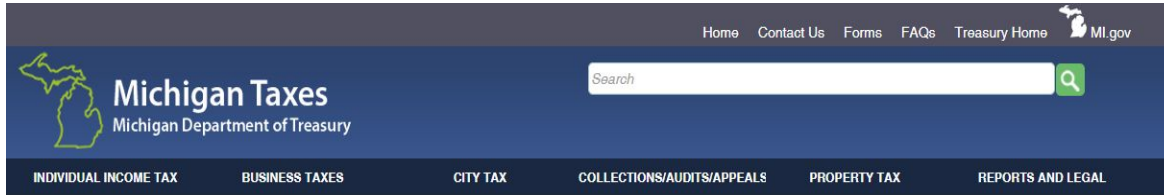
# Taxing Cities

- 24 Michigan cities have an individual income tax, including:
  - Albion, Battle Creek, Benton Harbor, Big Rapids, **Detroit**, East Lansing, Flint, Grand Rapids, Grayling, **Hamtramck**, **Highland Park**, Hudson, Ionia, Jackson, Lansing, Lapeer, Muskegon, Muskegon Heights, **Pontiac**, Port Huron, Portland, Saginaw, Springfield, and Walker.
- Returns are typically due April 30 of each tax year.
  - For tax year 2022, they are due May 1, 2023 because April 30 falls on a Sunday

# Common Form 1040

- All except Detroit and Hudson use Common Form 1040 (CF-1040)
  - Can be completed in TaxSlayer
- **Return must be paper filed** – print two copies (one to mail and one for the client's records)
  - Print extra copy of federal forms that must be attached to the return
    - Federal 1040, page 1, Sch 1 and Schedules B, C, D, E
    - Other city returns (credit for taxes paid to other city)
  - Attach W-2's & 1099-R's (if taxable)
  - Instruct the client that they must sign and mail in the return with their payment (if owed)

# Michigan City Income Tax



## TAXES

### City Income Tax Forms

- City of Albion
- City of Battle Creek
- City of Benton Harbor
- City of Big Rapids
- City of Detroit
  - 2014 and Previous Years
  - 2015 to Present
- City of East Lansing
- City of Flint
- City of Grand Rapids
- City of Grayling
- City of Hamtramck
- City of Highland Park
- City of Hudson
- City of Ionia
- City of Jackson
- City of Lansing
- City of Lapeer
- City of Muskegon
- City of Muskegon Heights
- City of Pontiac
- City of Port Huron
- City of Portland
- City of Saginaw
- City of Springfield
- City of Walker

- Alternatively, city-specific tax forms are available on the Michigan.gov tax website at [Michigan City Income Tax Forms Website](#).
  - You can prepare each city return manually using their specific instructions.
- This **must** be done for the city of **Hudson**, which cannot be prepared in TaxSlayer.

# City Tax Rates

The following Michigan cities levy an income tax of 1% for Residents and 0.5% for Nonresidents:

Albion	Battle Creek	Benton Harbor	Big Rapids	East Lansing
Flint	Grayling	Hamtramck	Hudson	Ionia
Jackson	Lansing	Lapeer	Muskegon	Muskegon Heights
Pontiac	Port Huron	Portland	Springfield	Walker

The following cities levy an income tax at different tax rates:

- **Detroit:** 2.4% for Residents, 1.2% for Nonresidents
- **Highland Park:** 2% for Residents, 1% for Nonresidents
- **Grand Rapids and Saginaw:** 1.5% for Residents, 0.75% for Nonresidents

# Who Must File?

- Who **Must** File
  - Persons who owe tax or are due a refund
  - Residents whose AGI exceeds the personal exemption
  - Nonresidents and part-year residents whose city wages exceed the personal exemption
  - Each city can be different so consult their instructions for filing requirements.
- Residents who file a Federal Return (EVEN IF NO CITY TAX IS OWED) **should** file.
  - File a City of Detroit return for all Detroit residents, regardless of income amounts.

# Filing Status

- Like Michigan, there are only three filing statuses:
  - Single
  - Married Filing Jointly
  - Married Filing Separately
- TaxSlayer defaults Head of Household and Qualifying Surviving Spouse filers to Single on the city return.

# Exemptions

- Most **exemptions** carry over directly from the federal and state returns, so double check the city tax return to make sure all exemptions flowed through.
- Exemptions on city returns include:
  - Personal Exemption
  - An additional exemption if 65 or older
  - An additional exemption for the taxpayer or spouse if blind, deaf, or totally and permanently disabled (if under age 66)
    - There are no special exemptions for dependents
  - Number of dependent children and other dependents
- Not all cities allow all of these exemptions.



# Exemptions by City: Common Cities

City	Exemption Amount	Exemption Type					
		Personal	65 and Older	Blind	Deaf	Permanently Disabled	Dependents
<b>Detroit</b>	\$600	YES	YES	YES	YES	YES	YES
<b>Hamtramck</b>	\$600	YES	YES	YES	YES	YES	YES
<b>Highland Park</b>	\$600	YES	YES	YES	YES	YES	YES
<b>Pontiac</b>	\$600	YES	YES	YES	NO	NO	YES

\*Highland Park and Hamtramck also allow a taxpayer to claim an exemption even if someone else claims them as a dependent on their return.

# Exemptions by City

City	Exemption Amount	Exemption Type					
		Personal	65 and Older	Blind	Deaf	Permanently Disabled	Dependents
<b>Albion</b>	\$600	YES	YES	NO	NO	NO	YES
<b>Battle Creek</b>	\$750	YES	YES	YES	YES	YES	YES
<b>Benton Harbor</b>	\$750	YES	YES	YES	NO	NO	YES
<b>Big Rapids</b>	\$600	YES	NO	NO	NO	NO	YES
<b>East Lansing</b>	\$600	YES	YES	YES	YES	YES	YES

# Exemptions by City

City	Exemption Amount	Exemption Type					
		Personal	65 and Older	Blind	Deaf	Permanently Disabled	Dependents
<b>Flint</b>	\$600	YES	YES	YES	NO	NO	YES
<b>Grand Rapids</b>	\$600	YES	YES	YES	NO	NO	YES
<b>Grayling</b>	\$3,000	YES	YES	YES	NO	NO	YES
<b>Hudson</b>	\$1,000	YES	YES	YES	NO	NO	YES
<b>Ionia</b>	\$700	YES	YES	YES	NO	NO	YES

# Exemptions by City

City	Exemption Amount	Exemption Type					
		Personal	65 and Older	Blind	Deaf	Permanently Disabled	Dependents
<b>Jackson</b>	\$600	YES	YES	YES	NO	PARAPEGIC	YES
<b>Lansing</b>	\$600	YES	YES	YES	YES	YES	YES
<b>Lapeer</b>	\$600	YES	YES	YES	NO	YES	YES
<b>Muskegon</b>	\$600	YES	YES	YES	YES	YES	YES
<b>Muskegon Heights</b>	\$600	YES	YES	YES	NO	NO	YES

# Exemptions by City

City	Exemption Amount	Exemption Type					
		Personal	65 and Older	Blind	Deaf	Permanently Disabled	Dependents
<b>Port Huron</b>	\$600	YES	YES	YES	YES	YES	YES
<b>Portland</b>	\$1,000	YES	YES	YES	YES	YES	YES
<b>Saginaw</b>	\$750	YES	YES	YES	NO	NO	YES
<b>Springfield</b>	\$750	YES	YES	YES	YES	YES	YES
<b>Walker</b>	\$600	YES	YES	YES	NO	NO	YES

# Exemptions – Detroit Return Example

## Example:

Mark (70 years old) and Ann (62 years old and disabled) are filing a joint return. They have one disabled son (40 years old). Their total exemptions would be five, as shown here.

City of Detroit Resident Income Tax Return, lines 8 and 14

8. EXEMPTIONS. 8a-8c apply to you and your spouse only.		
Personal Exemption .....	a.	2
65 and over.....	b.	1
Deaf, Disabled or Blind.....	c.	1
Number of dependent children .....	d.	
Number of other dependents.....	e.	1
<b>TOTAL EXEMPTIONS.</b> Add lines 8a through 8e. ....	f.	5

14. Exemption allowance. Multiply line 8f by \$600 ..... 14. 3,000

# Income

- Each city has their own laws regarding what income is and isn't taxable.
  - Consult the instructions of other cities to determine what is taxable and not taxable.

# Taxable Income: Frequently Seen Cities

The following items are **not** exempt from the listed cities income tax:

## City of Detroit

### Residents

- Wages, bonuses, etc.
- Business and Rental Income
- Gambling winnings, including the Lottery
- Early retirement distributions
- Interest, Dividends, and Capital Gains

### Non-Residents

The following sources of income are taxable to non-residents:

- Taxable income to nonresidents:
  - Wages, bonuses, etc. which are earned in the city
  - Business and Rental Income from the city
- If part of the work is done outside the city, then the income is apportioned.
  - For example, if John works in Detroit, but 10% of his days are spent at an office in Roseville, then he only needs to show 90% of the amount from his W-2 on the Detroit Nonresident return



# Non-Taxable Income: Frequently Seen Cities

The following items are exempt from the listed cities income tax:

## City of Detroit

- Gifts, inheritances and bequests.
- Pensions and annuities, including disability pensions. (Pre-retirement distributions are taxable.)
- Proceeds from insurance (except payments from a health and accident policy paid for by your employer are taxable to the same extent as provided by the Internal Revenue Code).
- Unemployment compensation, Welfare relief payments, supplemental unemployment benefits (sub-pay).

# Non-Taxable Income: Frequently Seen Cities

The following items are exempt from the listed cities income tax:

## Hamtramck and Highland Park

- Social security, pensions and annuities (including disability pensions), Individual Retirement Account (IRA) distributions received after reaching age 59½.
- Proceeds of insurance where the taxpayer paid policy premiums. (Payments from a health and accident policy paid by an employer are taxed the same as under the Internal Revenue Code).
- Welfare relief, unemployment compensation and supplemental unemployment benefits.
- Interest from obligations of the United States, the states or subordinate units of government of the states and gains or losses on the sales of obligations of the United States.
- Military pay of members of the armed forces of the United States, including Reserve and National Guard pay.
- Michigan Lottery prizes won on or before December 30, 1988. (Michigan lottery prizes won after December 30, 1988 are taxable.)
- City, state and federal refunds

# Non-Taxable Income: Frequently Seen Cities

The following items are exempt from the listed cities income tax:

## Pontiac

- Gifts, inheritances and bequests
- Pensions (including disability pensions), Social Security benefits, Railroad Retirement Act benefits, annuities, IRA and 401k distributions after age 59 ½, and rollover of amounts from IRAs to ROTH IRAs.
- Proceeds of insurance (except that payments from a health and accident policy paid for by your employer are taxable to the same extent as provided by the Internal Revenue Code).
- Unemployment compensation, supplemental unemployment benefits, welfare relief payments.
- Workers' compensation or similar payments for death, injury or illness arising out of and in the course of an employee's job.
- Interest from obligations of the United States, the states, or subordinate units of government of the states, and gains or losses on the sales of obligations of the United States.
- Military pay of members of the National Guard and the Armed Forces of the United States including reserve pay. Attach a copy of your military W-2.

# City of Detroit Subtractions

Some common **subtractions from income** for residents of the city of Detroit include:

- IRA, pensions and other retirement benefits
  - Pre-retirement distributions do not apply
- Taxable Social Security benefits
- State and local income tax refunds
- Unemployment compensation

Most of these carry forward from the federal return with the exception of the subtraction for retirement benefits.

# Taxes Withheld

- As long as the locality name is entered correctly into TaxSlayer, the withholdings will carry forward to the locality return.
  - How they should be entered into TaxSlayer locality boxes is shown below.
- City of Detroit Tax Withheld-
  - Any amount the client paid to the city will carry to Schedule W.
  - Schedule W is a summary of the taxes withheld from each paycheck.

## Michigan Locality Name Codes (Name - **CODE**):

Albion - **ALBION** | Battle Creek - **BC** | Benton Harbor - **BH** | Big Rapids - **BR** | Detroit - **DETROIT** | East Lansing - **EL** | Flint - **FLINT** | Grand Rapids - **GR** | Grayling - **GRAYLING** | Hamtramck - **HAMTRAMCK** | Highland Park - **HP** | Ionia - **IONIA** | Jackson - **JACKSON** | Lansing - **LANSING** | Lapeer - **LAPEER** | Muskegon - **MUSKEGON** | Muskegon Heights - **MH** | Pontiac - **PONTIAC** | Port Huron - **PH** | Portland - **PORTLAND** | Saginaw - **SAGINAW** | Springfield - **SF** | Walker - **WALKER**

# Credits and Payments

## City Estimated Tax

- Some taxpayers must pay quarterly estimated tax payments if they are self-employed or their employer does not withhold enough from their paychecks.
- Clients that owe each year may be sent estimated payment vouchers to avoid owing.
- If a taxpayer owes more than \$100, they will be charged extra penalties if they do not file estimated payments.
  - This penalty comes after they file.

## Taxes paid to Another City

- If a taxpayer lived in one taxing city but worked in another taxing city, earnings are taxed by both.
  - A credit can be added to the resident city return to account for the taxes paid to the non-resident taxing city.

# Credit for Taxes Paid to Another City

- If a taxpayer lived in one taxing city but worked in another taxing city, earnings are taxed by both.
- The resident city will give credit for taxes paid to the nonresident city.
- The credit is the lesser of:
  - The taxes levied by the non-resident city
  - What the comparable non-resident taxes would have been in the resident city. (rates and exemptions may differ).

# Credit for Taxes Paid to Another City

## To calculate this credit:

1. Complete a non-resident city tax return for the city the taxpayer **worked in, but did not live in**. Notate the amount of tax that has been computed.
2. Complete a non-resident city tax return for the city the taxpayer **lived in, but did not work in**. Notate the amount of tax that has been computed, then **DELETE THIS RETURN**.
3. The lesser of the tax amounts computed in Step 1 and Step 2 is the amount to be entered in on the taxpayer's resident return as the credit for tax paid to other cities.
4. Print an extra copy of the non-resident return to attach to the resident return.



# Credit for Taxes Paid to Another City

## Example

- John earned wages in Highland Park for the entire tax year, but was a Detroit resident for the entire tax year.
  1. Complete a Highland Park Non-resident return and make note of the tax computed on line 23.
  2. Complete a Detroit Non-resident return, make note of the tax computed on line 19, then delete this return.
- The lower of the tax amounts calculated above is the credit for taxes paid to other cities to include on John's Detroit resident tax return.

# Establishing Where a Client Worked

- After asking a client what city they worked in, follow up by asking if they worked from home.
- Nonresident taxpayers will often fail to mention that they worked from home temporarily during the pandemic, especially if they usually work only in the taxing city. In many cases, clients will overpay local income tax if this isn't discovered.
  - For example: A teacher for Detroit Public Schools lives in Warren. When asked what city the client works in, the client says, “Detroit.” However, DPS was closed from March 2022 to August 2023, and teachers worked virtually. So the client actually worked in Warren for most of both 2022 and 2023, and therefore owes less tax to the city of Detroit.

# City Refund / Tax Due

- All refunds will be sent to the taxpayer via a paper check, as there is not a direct deposit option.
- If there is tax due, a voucher will be printed with the tax return.
  - Advise the taxpayer to send payment via check or money order in the pre-addressed envelope before the last filing date of the season.
- If the taxpayer owes more than \$100, they should be advised to ask their employer to withhold more through a form W-4, or to make quarterly estimated tax payments for the next tax year.

# City Returns in TaxSlayer

- Need to know client's residency status:
  - Full year resident, part year resident, or non-resident
- Need to determine what amount of income is taxable as a resident or non-resident
- If part year resident, need to know dates of residency
  - Also need to prorate exemptions based on those dates
- If client paid taxes to another taxing city, need to complete non-resident taxing city return first

# Entering CF-1040 into TaxSlayer

- W-2s will carry forward from federal, however:
  - You do have to enter details to allocate wages for nonresidents and part-year residents.
  - For any local income tax withholding, the locality name must be entered correctly on the W-2 page in TaxSlayer, or the withholding will not appear on the CF-1040.
  - Nonresidents will need to add the dates they worked in each location and the address of their workstation (NOT the employer's address).
- For pensions, you must enter all 1099-Rs exempt from tax.
  - The EIN and federal dollar amount must match EXACTLY or the income won't be correctly excluded.
  - If the 1099-R was not excluded, check for typos and rounding errors in local 1099-R input.
- For self-employment income, enter the exact Net Profit from Schedule C before completing the business allocation formula.