

## Line-by-Line Instructions for *Additions and Subtractions* (Schedule 1)

Part-year and nonresidents, complete Schedule NR (see page 49) before proceeding.

If you have income or losses attributable to other states, you must include all relevant federal schedules and supporting statements (see page 59). Include *Schedule K-1s* which support your federal *Schedules B, D, E* and 4797. **The type, source and location of the income or loss must be identified.** For assistance conveying this information to Treasury, refer to the “Business, Rental & Royalty Activity Worksheet” and its instructions available on Treasury’s Web site. If you do not include the federal schedules and supporting statements, processing of your return may be delayed or your credit/subtraction may be denied.

### Additions to Income

**Line 1:** Enter gross interest, dividends, and income from obligations or securities of states and their political subdivisions other than Michigan. Add this income even if it comes to you through a partnership, S corporation, estate, or trust. You may reduce this income by related expenses not allowed as a deduction by Section 265(a)(1) of the Internal Revenue Code (IRC). Do not complete this line if you were a nonresident for the full year.

**Line 2:** Enter the deduction taken for **self-employment tax** on your federal return and for other taxes on or measured by income, such as your share of city income tax paid by partnerships or S corporations, or your share of the taxes paid by an estate or trust.

**Line 3:** Use *Michigan Adjustments of Capital Gains and Losses* (MI-1040D) and related *Michigan Sales and Other Dispositions of Capital Assets* (MI-8949) **only** if you have capital gains or losses attributable to: (1) an election to use Section 271 treatment for property acquired before October 1, 1967; (2) the sale or exchange of U.S. obligations which cannot be taxed by Michigan; or (3) the sale or exchange of property located in other states.

If you reported gains on U.S. Form 4797 on property acquired before October 1, 1967, or located in other states, adjust the gain on the *Michigan Adjustments of Gains and Losses From Sales of Business Property* (MI-4797).

Enter gains from the Michigan column of MI-1040D, line 12, and MI-4797, line 18b(2). Instructions are with each form.

**Line 4:** Enter losses from a business or property located in another state which you own as a sole proprietor, a partner in a partnership, a shareholder in an S corporation, or as a member of a pass-through entity.

If your business is taxed by both Michigan and another state, the loss must be apportioned. You must include a *Michigan Schedule of Apportionment* (MI-1040H).

If you have a federal excess business loss limitation, you must complete Form MI-461. Follow instructions provided on Form MI-461 to determine if any amount is to be included here.

**Line 5:** Enter the net loss from the federal column of your MI-1040D, line 13, or MI-4797, line 18b(2) as a positive number.

**Line 6:** Enter gross expenses from the production of oil and gas or extraction of nonferrous metallic minerals subject to Michigan severance tax to the extent deducted from AGI. Subtract the related gross income on line 19.

**Line 7:** Residents, enter the amount of the NOL deduction to the extent included in AGI. Part-year and nonresidents, see instructions for Schedule NR, line 11.

**Line 8:** Enter the total of the following (include an additional schedule if necessary):

- Add, to the extent not included in AGI, the amount of money withdrawn in the tax year from a Michigan Education Savings Program (MESP) account, including the Michigan 529 Advisor Plan (MAP), or a Michigan Achieving a Better Life Experience Program (ABLE) account, if the withdrawal was not a qualified withdrawal as provided in the MESP or ABLE Acts. You may first exclude any amount that represents a return of contributions for which no deduction was claimed in any prior tax year.
- Refund received from a Michigan Education Trust (MET) contract. If you deducted the cost of a MET contract in previous years and received a refund from MET during 2018 because the MET contract was terminated, enter the smaller of: (1) the refund you received or (2) the amount of the original MET contract price including fees which you deducted in previous years.

NOTE: Michigan treatment of bonus depreciation conforms with federal law. Adjustments for bonus depreciation are not required.

### Subtractions From Income

**NOTE:** Part-year and nonresidents, subtract only income attributable to Michigan (Schedule NR, column B) that is not included on line 13.

**Line 10:** Enter income from U.S. government obligations (e.g., Series EE bonds, Treasury notes), including income from U.S. government obligations received through a partnership, S corporation, or other pass-through entity. This subtraction must be reduced by related expenses used to arrive at AGI.

Investment companies that invest in U.S. obligations are permitted to pass the tax-free exemption to their shareholders. If income from U.S. government obligations exceeds \$5,000, include a copy of your U.S. *Schedule B* and a supporting statement listing the amounts received, the source, and the issuing agency. Capital gains from the sale of U.S. government obligations must be adjusted on your MI-1040D.

**Line 11:** Include military and Michigan National Guard retirement benefits here and on Schedule W, Table 2. Also report any taxable Tier 1 and Tier 2 railroad retirement benefits. Other qualifying public or private retirement benefits must be reported on the *Michigan Pension Schedule* (Form 4884) and Schedule 1, line 25.

**Line 12:** Enter the gains from the federal column of your MI-1040D, line 12, and MI-4797, line 18b(2). See instructions for Schedule 1, line 3.

**Line 13: Income Attributable to Another State.** Nonresidents and part-year residents, complete Schedule NR. See instructions on page 50. Include federal schedules.

Michigan residents cannot subtract salaries and wages or other compensation earned outside Michigan. However, they may be entitled to a tax credit for income tax imposed by government units outside Michigan (see page 9).

**Residents may subtract, to the extent included in AGI:**

- Net business income earned in other states, and
- Net rents and royalties from real property or tangible personal property located or used in another state.

Business income that is taxed by Michigan and another state must be apportioned, including interest, dividends and capital gains. You must include Form MI-1040H. Income reported on the MI-4797 and carried to the MI-1040D is business income, potentially subject to apportionment.

Capital gains from the sale of real property or tangible personal property located outside of Michigan must be adjusted on the MI-1040D.

If you have a federal excess business loss limitation, you must complete Form MI-461. Follow instructions provided on Form MI-461 to determine if any amount is to be included here.

**Line 14:** Compensation received for active duty in the U.S. Armed Forces included in AGI should be entered here and on Schedule W, Table 1. Enter only the taxable portion of Social Security and Military pay included on your U.S. Form 1040. Do not include total Social Security benefits or any Tier 1 and Tier 2 railroad retirement benefits.

**NOTE:** Compensation from the U.S. Public Health Service, contracted employee pay and civilian pay are not considered military pay.

**Line 15: Renaissance Zone deduction.** To be eligible you must meet all the following requirements:

- Be a permanent resident of a Renaissance Zone designated prior to January 1, 2012, for at least 183 consecutive days
- Be approved by your local assessor's office
- Not be delinquent for any State or local taxes abated by the Renaissance Zone Act
- File an MI-1040 each year
- Have gross income of \$1 million or less.

If you were a full-year resident of a Renaissance Zone, you may subtract all income earned or received. Unearned income, such as capital gains, may have to be prorated. If you lived in the Zone at least 183 consecutive days during 2018, subtract the portion of income earned while a resident of the Zone. If you are a part-year resident of a Zone, complete and include a Schedule NR with your MI-1040. (See "Note" on the bottom of the Schedule NR instructions, page 50.)

Certain Renaissance Zones began to phase out in 2007. The tax exemption is reduced in increments of 25 percent during the Zone's final three years of existence. If you are a resident of a Zone that is phasing out (check with your local unit of government), you must reduce your deduction as follows:

- 25 percent for the tax year that is two years before the final year of designation as a Renaissance Zone
- 50 percent for the tax year immediately preceding the final year of the designation as a Renaissance Zone
- 75 percent for the tax year that is the final year of the designation as a Renaissance Zone.

For additional information regarding qualifications for the Renaissance Zone deduction, contact your local assessor's office.

**Line 16:** Subtract Michigan state and city income tax refunds and homestead property tax credit refunds that were included in AGI.

**Note to farmers:** Subtract (to the extent included in AGI) the amount that your state or city income tax refund and homestead property tax credit exceeds the business portion of your homestead property tax credit.

**Line 17: Michigan Education Savings Program (MESP).** You may deduct, to the extent not deducted in calculating AGI, the total of all contributions less qualified withdrawals and rollovers (compute the contributions, withdrawals and rollovers separately for each account) made during 2018 by the taxpayer in the tax year to accounts established through the MESP (529 direct-sold program), including the MI 529 Advisor Plan (MAP). The deduction may not exceed \$5,000 for a single return or \$10,000 for a joint return per tax year. There are many 529 savings/investment programs nationwide, but Michigan only allows a tax deduction for contributions to the Michigan 529 programs: MESP, MAP and MET.

**Line 18: Michigan Education Trust (MET).** You may deduct the following:

- If you purchased a MET 529 prepaid tuition contract during 2018, you may deduct the total contract price (including the processing fee).
- If you made a charitable contribution to the MET Charitable Tuition Program during 2018, you may deduct the total contribution amount. You should have received a receipt from MET to confirm the amount. All charitable donations will go toward providing scholarships to former foster care students attending Michigan colleges.
- If you purchased a MET payroll deduction, monthly purchase or pay-as-you-go contract, you may deduct the amount paid on that contract during 2018 (not including fees for late payments or insufficient funds). You will receive an annual statement from MET specifying this amount.
- If you have terminated a MET contract, you may deduct the amount included in AGI as income to the purchaser.

**Line 19:** Subtract the gross income subject to Michigan severance tax from the Michigan production of oil and gas or extraction of nonferrous metallic minerals to the extent included in AGI. Add back the related expenses on line 6. Include copies of applicable federal schedules.

**Line 20: Tax Agreement Tribes:** A "Resident Tribal Member" (Member must be on the list submitted by their Tribe to the State of Michigan) of a federally recognized Indian tribe that has an active tax agreement with the State of Michigan may subtract certain income that is included in his or her AGI identified on line 10 of the MI-1040. Such exempt income may include income derived from wages, interest, and pension income. For a list of agreement tribes, go to [www.michigan.gov/taxes](http://www.michigan.gov/taxes) and select "Individual Income Tax." Under Special Filing Situations, select "Tax Information for Native Americans." A list of tribes' names will be available; click to access the tax agreement and proceed to Section IV. **Non-Tax Agreement Tribes:** If your tribe is not listed, your tribe does not have an active tax agreement with Michigan. Non-agreement members, see *Revenue Administrative Bulletin 1988-47* for guidelines in determining exempt income that may be subtracted on line 20.

**NOTE:** Michigan income earned while living outside of your Agreement Area (see your tribe's agreement for a description of your Agreement Area) or Indian Country (as defined under 18 U.S.C. 1151 for Non-Agreement Tribes) may not be subtracted from Michigan AGI.

**Line 21: Net Operating Loss (NOL).** You may only deduct the Michigan NOL. Your Michigan NOL carryforward must be reduced as required under IRC 172 if the adjustments are attributable to Michigan (see MI-1045 instructions). You must include Form MI-1045 and all required documentation for each loss year, including the U.S. Form *1040* and supporting federal schedules and statements.

**Line 22: Miscellaneous subtractions only include:**

- Any portion of a qualified withdrawal from an MESP account, including the MAP, or ABLE account to the extent included in federal AGI. **NOTE:** Any amounts not included in AGI or that are already deducted on the U.S. Form *1040* to arrive at AGI **do not** qualify for this subtraction.
- Benefits from a discriminatory self-insured medical expense reimbursement plan, to the extent these reimbursements are included in AGI.
- Losses from the disposal of property reported in the Michigan column of MI-1040D, line 13, or MI-4797, line 18b(2).
- Amount used to determine the credit for elderly or totally and permanently disabled from U.S. Form *1040 Schedule R*, line 19. Include a copy.
- Holocaust victim payments.

**You may not subtract:**

- Retirement and pension benefits on line 22. See Form 4884
- Itemized deductions from U.S. *Schedule A*
- Sick pay (except railroad sick pay included in AGI), disability benefits, and wage continuation benefits paid to you by your employer or by an insurance company under contract with your employer
- Unemployment benefits included in AGI, except railroad unemployment benefits
- Contributions to national or Michigan political parties or candidates
- Proceeds and prizes won in State of Michigan regulated bingo, raffle, or charity games
- Distributions from a deferred compensation plan received while a resident of Michigan
- Lottery winnings. (Exception: installment payments from prizes won on or before December 30, 1988, may be subtracted.) Include installment gross winnings as reported on your Form W-2G, box 1, and enter on your Schedule W, Table 1.
- Adjustments for bonus depreciation not included in AGI.

**Lines 23C and 23F: Benefits From Employment with a Governmental Agency Not Covered by the Federal Social Security Act (SSA).**

SSA exempt employment is not covered by the federal SSA, which means the worker did not pay Social Security taxes and is not eligible for Social Security benefits based on that employment. Almost all employment is covered by

the federal SSA. The most common instances of retirement and pension benefits from employment that is not covered by Social Security 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 SSA.

A recipient who qualifies under both of the following conditions is entitled to a greater retirement or pension deduction or Michigan Standard Deduction.

- Born between January 1, 1946 and January 1, 1957, or is born after December 31, 1952 and retired as of January 1, 2013 and
- Receives, or whose spouse receives, retirement or pension benefits from employment with a governmental agency that was not covered by the federal SSA.

Answer the questions below to determine if you should check boxes 23C and/or 23F.

**Line 23C:**

1. Was the older of the filer or spouse born between January 1, 1946 and January 1, 1957 and did they reach age 62?  
Yes: Continue to question 4.  
No: Continue to question 2.
2. Did the filer receive retirement or pension benefits from a deceased spouse born between January 1, 1946 and December 31, 1952?  
Yes: Continue to question 4.  
No: Continue to question 3.
3. Did the filer retire as of January 1, 2013?  
Yes: Continue to question 4.  
No: Stop. You are not eligible to check box 23C.
4. Did the filer receive retirement benefits from SSA exempt employment?  
Yes: Check box 23C.  
No: Continue to question 5.
5. Did the filer receive retirement benefits from SSA exempt employment as a surviving spouse?  
Yes: Check box 23C.  
No: Stop. You are not eligible to check box 23C.

**Line 23F:**

1. Was the older of the filer or spouse born between January 1, 1946 and January 1, 1957 and did they reach age 62?  
Yes: Continue to question 4.  
No: Continue to question 2.
2. Did the spouse receive retirement or pension benefits from a deceased spouse born between January 1, 1946 and December 31, 1952?  
Yes: Continue to question 4.  
No: Continue to question 3.
3. Did the spouse retire as of January 1, 2013?  
Yes: Continue to question 4.  
No: Stop. You are not eligible to check box 23F.
4. Did the spouse receive retirement benefits from SSA exempt employment?  
Yes: Check box 23F.  
No: Continue to question 5.



5. Did the spouse receive retirement benefits from SSA exempt employment as a surviving spouse?

Yes: Check box 23F.

No: Stop. You are not eligible to check box 23F.

**Line 24: Michigan Standard Deduction.** If the older of you or your spouse (if married filing jointly) was born during the period January 1, 1946 through January 1, 1952, and reached the age of 67 on or before December 31, 2018, you are eligible for a deduction against all income and will no longer deduct retirement and pension benefits. The deduction is \$20,000 for a return filed as single or married filing separately, or \$40,000 for a married filing jointly return. If you checked either box 23C or 23F your standard deduction is increased by \$15,000. If you checked both boxes 23C and 23F your standard deduction is increased by \$30,000.

The standard deduction is reduced by any amounts reported on line 11 and any military pay included on line 14.

In most cases, taxpayers who are eligible to complete line 24 should not complete lines 25 or 26. However, if a taxpayer is the unremarried surviving spouse of a decedent born prior to 1946 who also died after reaching age 65, check the box below line 26 to claim the Michigan standard deduction on line 24 and a deduction for investment income on line 26 (if applicable).

**Line 25:** Qualifying retirement and pension benefits included in your AGI may be subtracted from income. Retirement and pension benefits are taxed differently depending on the age of the recipient. See “Which Benefits are Taxable” below.

You must include Form 4884. If you were born during the period January 1, 1946 through January 1, 1952, see line 24.

**Line 26: Senior citizens** born prior to 1946 (or the unremarried surviving spouse of a decedent born prior to 1946 who also died after reaching age 65) may subtract interest, dividends, and capital gains included in AGI. This subtraction is limited to a maximum of \$11,495 on a single return or \$22,991 on a joint return. The maximum is reduced by any deduction for:

- Military (including Michigan National Guard) retirement benefits from line 11
- Railroad retirement benefits from line 11
- Public and private retirement and pension benefits from line 25
- Amount used for the federal credit for the elderly and totally and permanently disabled from line 22.

For further assistance, go to [www.michigan.gov/incometax](http://www.michigan.gov/incometax).

## General Information - Pension Schedule (Form 4884)

### What are Retirement and Pension Benefits

Under Michigan law, qualifying retirement and pension benefits include most payments that are reported on a 1099-R for federal tax purposes. This includes defined benefit pensions, IRA distributions, and most payments from defined contribution plans. Payments received before the recipient could retire under the provisions of the plan or benefits from 401(k), 457, or 403(b) plans attributable to employee contributions alone are not retirement and pension benefits under Michigan law, are taxable, and are subject to withholding.

**Qualifying benefits include distributions from the following sources:**

- Pension plans that define eligibility for retirement and set contribution and benefit amounts in advance
- Qualified retirement plans for the self-employed
- Retirement distributions from a 401(k) or 403(b) plan attributable to employer contributions or attributable to employee contributions that result in additional employer contributions (e.g., matching contributions)
- IRA distributions received after age 59½ or described by Section 72(t)(2)(A)(iv) of the IRC (series of equal periodic payments made for life)
- Benefits from any of the previous plans received due to a disability, or as a surviving spouse if the decedent qualified for the subtraction at the time of death and was born prior to January 1, 1953
- Benefits paid to a senior citizen (age 65 or older) from a retirement annuity policy that are paid for life (as opposed to a specified number of years)
- Foreign retirement and pension benefits that meet Michigan’s qualifications may also be eligible.

**Qualifying public benefits include distributions from the following sources:**

- The State of Michigan
- Michigan local governmental units (e.g., Michigan counties, cities, and school districts)
- Federal civil service.

Retirement and pension benefits that are transferred from one plan to another (rolled over) continue to be treated as if they remained in the original plan.

**For public and private retirement or pension benefits, you may not subtract (do not include on Form 4884):**

- Amounts received from a deferred compensation plan that lets the employee set the amount to be put aside and does not set retirement age or requirements for years of service. These plans include, but are not limited to, plans under Sections 401(k), 457, and 403(b) of the IRC
- Amounts received before the recipient could retire under the plan provisions, including amounts paid on separation, withdrawal, or discontinuance of the plan
- Amounts received as early retirement incentives, unless the incentives were paid from a pension trust.

### Which Benefits are Taxable

Retirement and pension benefits are taxed differently depending on the age of the recipient. Married couples filing a joint return should complete Form 4884 based on the year of birth of the older spouse. Military and Michigan National Guard pensions, railroad retirement benefits and Social Security benefits are exempt from tax and should be reported on the Schedule 1, line 11 or line 14.