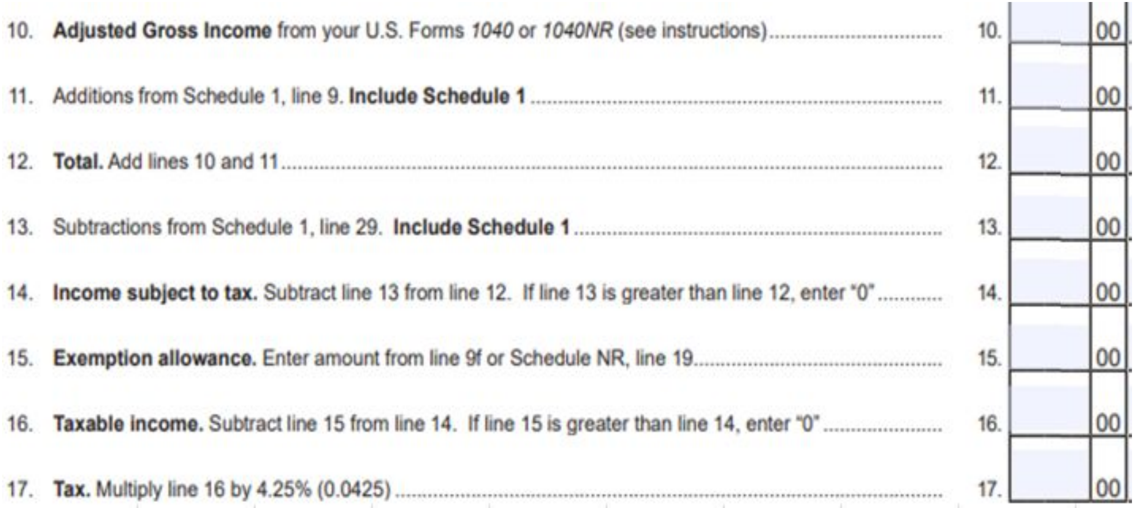
Accounting Aid Society

Michigan: Income, Additions, and Subtractions

Tax

In order to calculate the tax amount, we need to first determine taxable income.

- Michigan has a tax rate of **4.25% for tax year 2025**. The taxable income multiplied by this rate will determine the amount of Tax. Just like Federal, tax is lowered by withholdings and credits.



10.	**Adjusted Gross Income** from your U.S. Forms *1040* or *1040NR* (see instructions)	10.	00
11.	Additions from Schedule 1, line 9. **Include Schedule 1**	11.	00
12.	**Total.** Add lines 10 and 11	12.	00
13.	Subtractions from Schedule 1, line 29. **Include Schedule 1**	13.	00
14.	**Income subject to tax.** Subtract line 13 from line 12. If line 13 is greater than line 12, enter "0"	14.	00
15.	**Exemption allowance.** Enter amount from line 9f or Schedule NR, line 19	15.	00
16.	**Taxable income.** Subtract line 15 from line 14. If line 15 is greater than line 14, enter "0"	16.	00
17.	**Tax.** Multiply line 16 by 4.25% (0.0425)	17.	00

AGI from Federal 1040
\+ Additions from Schedule 1
- Subtractions from Schedule 1
= Income Subject to Tax

Income Subject to Tax
- Exemption allowance
= Taxable Income

Taxable Income
x 4.25%
= Tax

Use Tax

- Every state that has a sales tax has a companion tax for purchases made outside that state by catalog, telephone, or Internet.
  - In Michigan, that companion tax is called "**use tax**," but might be described as a **remote sales tax** because it is a **6 percent tax owed on purchases made outside of Michigan**.
- Use tax is due on catalog, telephone, or Internet purchases made from out-of-state sellers as well as purchases while traveling in foreign countries when the items are to be brought into Michigan.
  - Use tax must be paid on the total price (including shipping and handling charges).
  - Many Internet retailers charge tax on sales to Michigan residents.
- Taxpayers should review their records to determine if the retailer charged tax at the time of sale.
- If the client has no records or incomplete records of untaxed purchases, use Table 1 from the MI-1040 instructions to help them make a reasonable estimate and calculate the use tax owed.
- If the Michigan tax was paid at 6 percent, no additional tax would be due. If you paid at least 6 percent to another state on your purchase, you do not owe use tax to Michigan. If you paid less than 6 percent, you owe the difference.
- Use Worksheet 1 to calculate your use tax and enter the amount of use tax due on MI-1040, line 23.

Use Tax

Example:

Example: Ed ordered a computer from a catalog retailer in New York for $1,437.50. Ed also purchased items over the Internet for less than $1,000 during the year, but lost his receipts. He is sure he did not pay Michigan sales tax. Ed's AGI is $46,500. Ed would complete Worksheet 1 as follows:

Line 1: Ed selects $18 from Table 1 ……… $18

Line 2: Ed enters $1,437.50 × 6 percent …… $86.25

Line 3: Total use tax due …………………… $104.25

Ed would enter $104 (rounding down because the amount is 49 cents or less) on his MI-1040, line 23

TABLE 1 - USE TAX

AGI*	Tax
$0 - $10,000	$2
$10,001 - $20,000	$6
$20,001 - $30,000	$10
$30,001 - $40,000	$14
$40,001 - $50,000	$18
$50,001 - $75,000	$25
$75,001 - $100,000	$35
Above $100,000	Multiply AGI by 0.04% (0.0004)

* AGI from MI-1040, line 10.

Income

Adjusted Gross Income:

- Michigan starts with the federal Adjusted Gross Income (AGI) and then make Additions and Subtractions to AGI to determine Income Subject to Tax.

Additions to AGI:

- Most additions carry over from other entries made previously on the tax return. The most common additions we see are:
    - The deduction for self-employment tax taken on the federal 1040

Example:

Layla is self-employed and deducted $1,000 for self-employment tax on her federal 1040.

Michigan starts with her federal **Adjusted Gross Income (AGI)**.
Then, it **adds back** the $1,000 deduction, because Michigan does not allow that subtraction.

Result: Her **Michigan income subject to tax** is $1,000 more than her federal AGI.

Subtractions

Most subtractions carry over from other entries made previously on the tax return.

Subtractions from AGI:

- **Social Security benefits**
  If any part of your Social Security was taxed on your federal return, you can subtract that amount on your Michigan return.
- **U.S. Government bond income**
  Interest from U.S. Savings Bonds or Treasury Bonds may be subtracted.
- **Military pay**
  If your military pay was taxed on your federal return, you can subtract it on the Michigan return.
- **Retirement & Pension Subtraction**
  Some retirees can subtract all or part of their pension or retirement income.
- **Interest, dividends, and capital gains**
  Taxpayers born before **1946** may subtract some of this income, but there are limits.
- **Miscellaneous subtractions**
  Includes things like the amount used to figure the **federal credit for the elderly or disabled**.

These subtractions **lower your Michigan taxable income**, which can **reduce the amount of state tax you owe**.

Practice Scenario

Questions:

What is the purpose of subtractions from AGI on the Michigan tax return?

A) To increase federal income

B) To calculate sales tax

C) To reduce Michigan taxable income

D) To pay local taxes

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Practice Scenario

Questions:

Adam, a Michigan resident, ordered a $1,200 laptop from an online store based in Florida. The retailer **did not charge any sales tax**. Adam had the laptop shipped to his home in Detroit with a **$40 shipping fee**. How much **use tax** does Adam owe to Michigan?

A. $72
B. $74.40
C. $76.80
D. $80

Practice Scenario

Questions:

Adam, a Michigan resident, ordered a $1,200 laptop from an online store based in Florida. The retailer **did not charge any sales tax**. Adam had the laptop shipped to his home in Detroit with a **$40 shipping fee**. How much **use tax** does Adam owe to Michigan?

A. $72
B. $74.40
C. $76.80
D. $80

Explanation:

- ➔ Use tax is **6%** of the **total price including shipping**:
- ➔ $1,200 + $40 = $1,240
- ➔ $1,240 × 0.06 = **$74.40**

Practice Scenario

Questions:

Leila has a **Michigan taxable income** of **$35,000** in 2025. Michigan's flat income tax rate is **4.25%**. How much Michigan **income tax** does she owe **before** withholdings or credits?

A. $1,400
B. $1,487.50
C. $1,512.25
D. $1,375.25

Practice Scenario

Questions:

Leila has a **Michigan taxable income** of **$35,000** in 2025. Michigan's flat income tax rate is **4.25%**. How much Michigan **income tax** does she owe **before** withholdings or credits?

A. $1,400
B. $1,487.50
C. $1,512.25
D. $1,375.25

➔ **Explanation:** $35,000 × 4.25% = $1,487.50