

# 2005 MUSKEGON M-1040 INSTRUCTIONS

## WHO MUST FILE A RETURN

Every individual who had \$600.00 or more of Muskegon taxable income during 2005, must file a City of Muskegon Individual Income Tax Return, Form M-1040.

The filing of a declaration of estimated tax does not excuse a taxpayer from filing an annual return even though there is no change in the declared tax liability or an additional amount of tax due.

Partnerships, corporations, estates and trusts shall file on forms provided for their specific use.

Filing must be made on City of Muskegon forms. Other cities' forms are not acceptable.

The fact that a taxpayer is not required to file a federal income tax return does not relieve him/her from filing a Muskegon tax return.

## MARRIED PERSONS - JOINT OR SEPARATE RETURNS

Married persons may file either a joint return or separate returns. If a joint return is filed, all income of both husband and wife must be included in the return. A joint return must be signed by both individuals, otherwise, it will not be treated as a joint return. Both names must be listed in the heading (i.e. John A. and Mary B. Doe).

If separate returns are filed, neither spouse can claim the other as a dependent on their separate return. In addition, children and other dependents may only be claimed by the spouse who claims such dependents under the Federal Internal Revenue Code.

Couples married during the year where one spouse had a different residency status than the other may file separate returns, based on each one's place of employment and residency during the year, or the couple may file a joint return using Form M-1040TC to compute their tax.

## EMPLOYERS THAT DID NOT WITHHOLD

On page 2, Schedule J, list employers who paid you or your spouse wages in 2005, but did not withhold Muskegon income tax and did not furnish a city copy of Form W-2 for Muskegon.

## AMENDED RETURNS

An amended return, M-1040-X, must be filed where necessary to report additional income, pay additional tax due, or claim an additional refund. An amended return is due within 90 days of the date of a final determination of a federal tax liability which also affects the city income tax liability.

## INSTRUCTIONS FOR PAGE 1

Enter your name, social security number, address and occupation in the boxes provided.

If a joint return, enter spouse's first name, social security number and occupation.

Social security numbers must be correct and agree with those on the attached W-2 forms. THIS IS IMPORTANT.

Enter the name of your present employer.

If a joint return, enter spouse's present employer.

If married and filing a separate return, enter your spouse's name and social security number in the separate return box. If you were married in 2004 and had a different residency status from that of your spouse, file separate returns or use Form M-1040TC.

Check the proper box to indicate your residency status.

If you were a resident for only part of 2005, use form M-1040TC to compute your tax and attach it to the M-1040 filed.

Complete the exemptions section by checking the boxes that apply to yourself and spouse, if a joint return. Enter the first names of dependent children that live with you and the total number of other dependents, their full names and relationship, and the total number of exemptions claimed.

In column I enter income from Federal Return. In column II enter income NOT subject to Muskegon income tax (exclusions). Explain exclusions by completing the schedules on page 2 or on separate schedules attached to the return.

ATTACH COPIES OF FEDERAL SCHEDULES TO SUPPORT ALL ENTRIES ON LINES 6, 7 AND 10 OF COLUMN I.

Subtract column II from column I and enter difference in column III. If there are no exclusions in column II, use column III only. Support figures with schedules.

Multiply the number of exemptions allowed by \$600.00. Include the extra exemptions allowed by Muskegon for an individual 65 or older, blind, deaf or

paraplegic, quadriplegic, hemiplegic or totally and permanently disabled. Individuals claimed as an exemption on a parent's return may claim themselves on their own return.

Multiply line 17 by the proper tax rate to compute tax liability.

Be sure Muskegon tax withheld as claimed on line 19 agrees with the total tax withheld on the W-2 forms attached to return.

The credit for payment of 2005 Estimated Income Tax, line 20 is the actual amount paid to the city for the 2005 tax year, not the allowable itemized deduction claimed on the federal return.

Credit for income tax paid to another Michigan city is claimed on line 21. Attach a copy of the other city's return to support credit.

If the total tax payments and tax credits, line 23, are less than tax liability, line 18, enter the tax due on line 24. If the tax due is more than \$1.00, THE TAX DUE MUST BE PAID WITH THE RETURN WHEN FILED, OR BY THE DUE DATE.

If line 23 is more than line 18, show overpayment to be donated on line 25 or refund requested on line 26 or credited to 2005 estimated tax on line 27.

The taxpayer, the spouse if a joint return, and the person preparing the return MUST SIGN THE RETURN.

## ADJUSTMENTS AND DEDUCTIONS ALLOWED

No deductions are allowed for personal expenses or itemized deductions such as, taxes on your home, sales tax, church and charitable deductions or medical expenses.

No deductions are allowed for state or federal taxes paid.

The adjustments allowed are those from page 1 of the Federal 1040; IRA deduction, moving expenses, Keogh and SEP plans, alimony and IRA deduction on page 1 of Federal 1040A. Adjustments to income include the following:

**MOVING EXPENSE** for moving into the Muskegon area. Do not include expenses of moving from Muskegon. Attach a copy of Form 3903 or similar schedule.

**EMPLOYEE BUSINESS EXPENSES** after adjustment for any reimbursement by employer, but not subject to the 50% federal reduction for meal expense. Attach a copy of form 2106 or, similar schedule. Expenses are those allowed per IRS Code, limited to travel only. Business expenses claimed on Line 4 of Federal Form 2106 are not an allowable deduction on the Muskegon return unless the taxpayer qualifies as an outside salesperson. Prorate on basis of related taxable income. Expenses related to non-taxable income are not allowed

IRA, Keogh, and SEP adjustments are allowed in proportion to taxable income if allowed on Federal return. Adjustments related to income not taxable by Muskegon are not allowed.

**FORFEITED INTEREST** - allowed for residents only.

**ALIMONY** - must be prorated on basis of Muskegon taxable income to Federal taxable income. Do not include child support.

Supplemental unemployment benefits (S.U.B.) are not taxable, therefore, repayment of (S.U.B.) is not allowed as a deduction.

## EXEMPT INCOME

The following income (included in column I) is not taxable to either a resident or non-resident and should be excluded in column II and explained on the appropriate schedule on page 2.

Gifts and bequests; non-profit bingo winnings;

Proceeds of insurance, annuities, retirement plans (excluding early distributions) and social security;

Welfare relief, unemployment benefits including supplemental unemployment benefits (S.U.B.), and worker's compensation.

Interest from U.S. bonds, Municipal Bonds and Treasury Bills;

Amounts paid to any employee as reimbursement for expenses necessarily and actually incurred in the performance of service and deductible as such by the employer;

Compensation received for service in the armed forces of the United States, including the reserves.

## DECEASED TAXPAYER

Attach Federal Form 1310, or death certificate, if taxpayer or spouse is deceased.

# TAXABLE AND NON-TAXABLE INCOME AND EXCLUSIONS

## PART YEAR RESIDENT

### **M-1040TC - Tax Calculation Schedule**

A PART YEAR RESIDENT WITH TAXABLE INCOME AS BOTH A RESIDENT AND A NON-RESIDENT, must use Form M-1040TC, Tax Calculation Schedule, to calculate the liability.

A part year resident who has taxable income only as a resident or non-resident may file using the regular M-1040 form including an explanation on Schedule J, page 2, stating: Part year resident with taxable income only as a resident (non-resident). The tax rate for taxable income as a resident is 1% (.01). The tax rate for taxable income as a non-resident is 0.5% (.005).

### **Allocation of Income on Form M-1040TC**

Income is allocated according to the residency status for each item of income. Adjustments and deductions must be allocated in the same way income is

allocated. Taxable income earned while a resident is reported in the Income Earned as a Resident column. Taxable income earned while a non-resident is reported in the Income Earned as a Non-resident column. Non-taxable income and excludable income as either a resident or non-resident is reported in the Excludable Income Adjustments and Deductions column. Use the instructions for residents and non-residents as a guide to allocate income.

Follow the instructions on Form M-1040TC. If questions arise, phone the Income Tax Department at (231) 724-6770.

NOTE: Copies, schedules and other documentation supporting exclusions, adjustments and deductions must be attached. Failure to attach schedules and documentation or attaching incomplete or incorrect schedules and documentation will delay the processing of your return or result in deductions being disallowed.

## RESIDENT

### **LINE 1 - Wages, Salaries, Tips, etc.**

A resident is taxed on ALL earnings, including salary, bonus, separation and incentive payments, tips, commissions and other compensation for services rendered, REGARDLESS WHERE EARNED. EXAMPLE: Taxpayer lives in the City of Muskegon but works in Norton Shores and receives his paycheck from the home office in New York City, 100% of the compensation is taxable.

Report, on line 1 column I, the amount of wages, salaries, tips, etc. from Federal Return. (Form 1040, form 1040A, Form 1040EZ).

Military pay and supplemental unemployment benefits are NOT taxable. (Exclude on page 2 Schedule A, line 3).

Attach W-2 forms for all compensation or list the employers who did not withhold Muskegon tax in Schedule J.

A taxpayer, who was a resident part of the year and lived and worked outside the City the balance of the year, shall be taxed only on his earnings while a resident.

### **LINE 2- Interest**

Interest is taxable the same as on the Federal return except interest on U.S. Bonds, Treasury Bills and notes is excluded.

Report on line 2, column 1, the amount of taxable interest income from Federal Return. I (Form 1040, Form 1040A or 1040EZ) Exclude interest from U.S. Bonds and Treasury Bills and notes on page 2, Schedule B, line 1.

### **LINE 3 - Dividends**

Dividends are taxable. Report on line 3, column I the amount of dividend income from Federal Return. (Form 1040 or Form 1040A) Also report on line 3, column I any Sub-Chapter S distributions. (Sub-Chapter S distributions are dividends subject to Muskegon Income Tax)

Exclude margin interest paid on page 2, Schedule C, line 1.

### **LINE 4 - Refunds, Credits and Offsets**

Report on line 4, column 1, the amount of taxable refunds, credits or offsets from Federal 1040. Exclude the amount from column I in column II as refunds, credits and offsets that are not taxable by Muskegon.

### **LINE 5 - Alimony Received**

Report on line 5, column I, the amount of alimony received as reported on Federal 1040.

### **LINE 6 - Business Income**

All self employment income is taxable. Report on line 6, column I, the total business income from Federal 1040.

Adjustments must be made for job credits, additional depreciation due to investment credits and meal and entertainment expenses. (see page 2 Schedule D)

### **LINE 7 - Sale or Exchange Property**

Report on line 7, column I, the total long and short term capital gains and losses from Federal 1040.

The portion of the gains and losses occurring before July 1, 1993 are excludable. Use Schedule F, line 1a or if there is more than one sale or exchange, attach a separate schedule to document exclusion. The exclusion shall be computed from difference between the purchase price and fair market value at July 1, 1993 (June 30 closing price for traded securities or by prorating the gain or loss on the basis of total months held to months in the non-taxable period. Include gains or losses from Federal Form 4797.

### **LINE 8 - IRA Distributions**

Enter on line 8, column I, the IRA distributions reported on Federal Form 1040 or Form 1040A.

Exclude, in column II IRA distributions qualifying as retirement benefits. Premature IRA distributions are not excludable. ROTH rollover distributions are excludable.

### **LINE 9 - Pensions and Annuities**

Enter on line 9 - column I, the pension and annuities reported on Federal Form 1040 or Form 1040A.

Annuity distributions are excludable. Pension distributions qualifying as retirement benefits are excludable. Early distributions from a pension plan are not excludable.

### **LINE 10 - Supplemental Income**

Enter on this line in column I, the total amount shown on the Federal Return, Form 1040.

Support exclusions with Schedule H, page 2 and by attaching Federal Schedules E and/or F. Exclude undistributed share of Sub-Chapter S corporation income. Losses from passive activities are treated the same as on Federal Form 1040.

### **LINE 11 - Unemployment Compensation**

Enter on line 11, column I, the Unemployment Compensation reported on Federal Form 1040 or Form 1040A. Exclude Unemployment compensation in column II. It is not taxable.

### **LINE 12 - Social Security**

Enter on line 12, column I, the Social Security benefits reported on Federal Form 1040 or Form 1040A. Exclude Social Security in column II. It is not taxable.

### **LINE 13 - Other Income**

Enter on line 13, column I, the other income reported on Federal Form 1040. Income items included on this line would be gambling winnings, jury duty and other miscellaneous income. Identify the source of other income on Schedule J, page 2. Ordinary income from Federal Form 4972, special averaging methods, is taxable, attach schedule.

Exclude bingo winnings and other miscellaneous income which is not taxable in column II. Document exclusions on Schedule J, page 2 or attach a separate schedule.

### **LINE 14 - Adjustments and Deductions**

Enter in column III the total adjustments and deductions from page 2, Schedule I, line 6. Attach a copy of IRA contribution receipt to support an IRA contribution adjustment. Attach a copy of Federal Form 3903 to support moving expenses adjustment. Provide amount paid, name, address, and social security number of recipient to support employee business expense adjustment. Document other adjustments and deductions on Schedule I or attach other supporting documentation or schedules. The following Federal adjustments are not allowed under the Muskegon Income Tax Ordinance: student loan interest deduction, Archer MSA deduction, Self-employed health insurance deduction, one-half or self employment tax, and penalty on early withdrawal of savings.

The City of Muskegon must approve your "Renaissance Zone Tax Exempt Status" before a tax return is filed with our department. A copy of the Renaissance Schedule RZ 1040 must accompany the tax return.

Enter the Renaissance Zone deduction from Schedule RZ 1040. (qualified Renaissance Zone individuals only)

### **LINE 21 - Credit for Tax Paid to Another Michigan City**

A resident may claim a credit for income tax paid to another Michigan city. The credit for tax paid to the other city is based upon income that is also taxable in Muskegon. The credit allowed is the tax paid to the other city or 0.5% (.005) of the amount earned in that city during 2005 less exemptions allowed by the Muskegon Income Tax, whichever is smaller. Proof of payment to another city must be submitted. Attach a copy of the return filed with the other city. No credit is allowed for tax paid to a city in another state. (Refer to worksheet on the back of M-1040-TC).

## NON-RESIDENT

### LINE 1 - Wages, Salaries, Tips, etc.

Enter in column I the amount from Federal Form 1040, Form 1040A, or Form 1040EZ.

Enter in column II the excludable wages, salaries and tips. A non-resident is taxed on earnings received for work done or services performed in the City of Muskegon. The excludable portion of compensation paid to a non-resident for work performed for an employer both inside and outside of Muskegon is computed on Schedule A, lines 1a through 1g. The exclusion is based on the percentage of time worked in and out of Muskegon. **Vacation and sick time are not included in total days worked in arriving at this percentage.** Compensation for vacations, holidays, sick time, bonuses, and separation or incentive retirement payments is taxable on the same ratio as normal earnings. The percentage of compensation may be computed on the basis of days, hours or dollars of commission. A separate schedule must be completed to allocate wages from each employer.

Attach W-2 forms showing all wages and Muskegon tax withheld.

Use Schedule A, line 2 to explain exclusion of wages earned entirely outside of Muskegon.

Part Year Residents see Part Year Resident Instructions on page 3 and use form M-1040TC to calculate taxable income and tax due.

### LINE 2 - Interest

NOT TAXABLE, leave blank.

### LINE 3 - Dividends

NOT TAXABLE, leave blank

### LINE 4 - Refunds, Credits and Offsets

NOT TAXABLE, leave blank.

### LINE 5 - Alimony Received

NOT TAXABLE, leave blank.

### LINE 6 - Business Income

Report in column I the amount from Federal 1040.

See "Resident" Instructions on page 3 for adjustments to business income.

If the business activity is not entirely within the City of Muskegon, use Schedule D on page 2 to compute the excluded Business Income. Use Schedule E to compute the Business Allocation Percentage.

In determining the Business Allocation Percentage, a factor shall be excluded from the computation only when such factor does not exist anywhere. In such cases, the sum of the percentages shall be divided by the number of factors actually used.

### LINE 7 - Sale or Exchange of Property

Report in column I the amounts from Federal 1040. Exclude on Schedule F the portion of gains or losses from property located outside of Muskegon and the portion of gains or

losses from property located in Muskegon occurring prior to July 1, 1993. See instructions under "Resident" for methods of prorating Muskegon gains and losses.

An estate or trust is required to pay the tax for a non-resident beneficiary and such income is excludable on the Individuals Muskegon Return.

### LINE 8 - IRA Distributions

Enter in column I the amount from Federal Form 1040 or Form 1040A.

Exclude in column II all IRA distributions except premature distributions previously deducted from income subject to Muskegon tax.

### LINE 9 - Pensions and Annuities

Enter on line 9, column I, the pension and annuities reported on Federal Form 1040 or Form 1040A.

Exclude in column II, annuity distributions and pension distributions qualifying as retirement benefits. Early distributions from a pension plan are not excludable if related compensation was subject to Muskegon tax.

### LINE 10 - Supplemental Income

Report in column I, the amount from Federal 1040.

Exclude in column II the portion of income or loss from rental units outside the City of Muskegon, partnerships business activity outside the city, Sub-S corporations and farming activity outside the city. Support the exclusions by attaching a copy of Federal Schedule E and/or Schedule F. Losses on passive income are treated the same as on Federal Form 1040.

### LINE 11 - Unemployment Compensation

NOT TAXABLE, leave blank.

### LINE 12 - Social Security Benefits

NOT TAXABLE, leave blank.

### LINE 13 - Other Income

See instructions under "Resident". ESOP payments and stock savings plans are taxable in proportion to taxable wages. Miscellaneous income for services performed outside the City of Muskegon is excluded. Identify and explain exclusions on Schedule J.

### LINE 14 - Adjustments and Deductions

See instructions under "Resident".

If your earnings from line 1 have been allocated through use of the percentage from Schedule A, line 1d use same percentage to allocate the related adjustments. Explain allocations on Schedule J.

An IRA deduction is only allowable for individuals with Muskegon earned income to the extent the income is subject to the Muskegon tax.

Part Year Residents must allocate adjustments the same way they allocate income.

## ALL TAXPAYERS

### **PAYMENTS AND CREDITS**

#### LINE 19 - Total Tax Withheld by Employers

Enter total Muskegon tax withheld as shown on city or local copy W-2 forms. ATTACH COPIES OF ALL W-2 FORMS and be sure the total Muskegon tax withheld agrees with line 19. Round to the nearest dollar.

#### LINE 20 - Payments on 2005 Declaration of Estimated Tax

Take credit for all estimated Muskegon Income Tax payments made for 2005 including last payment due in January 2006.

#### LINE 22 - Other Tax Credits

Enter tax paid on your behalf by a partnership of which you are a partner, or payments made on a tentative return.

### **TAX DUE OR REFUND**

#### LINE 24 - Balance Due

Tax due of one dollar (\$1.00) or more must be paid IN FULL WHEN THE RETURN IS FILED. Tax due of less than \$1.00 need not be paid.

Make check or money order payable to CITY OF MUSKEGON.

NOTE: IF YOUR PAYMENT IS OVER \$100.00, YOU MAY BE REQUIRED TO FILE A DECLARATION OF ESTIMATED INCOME TAX, FORM M-1040ES. SEE ESTIMATED TAX INSTRUCTIONS. PENALTY AND INTEREST WILL BE CHARGED IF YOU HAVE NOT FILED A REQUIRED ESTIMATE OR IF YOUR ESTIMATES ARE UNDERPAID.

#### LINES 25, 26 and 27 - Overpayment

Overpayment of less than one dollar (\$1.00) will not be refunded and cannot be donated. All other overpayments will be refunded or may be donated to the D.A.R.E. Program, or credited to the 2006 estimated tax liability. To donate the overpayment, check the donation box on line 25 and enter the overpayment. To claim a refund enter the overpayment on line 26a. Complete lines 26b through 26d if you want us to directly deposit the amount shown on line 11a into your checking or savings account at a bank or other financial institution (such as a mutual fund, brokerage firm, or credit union) instead of sending you a check. NOTE: If you do not want your refund directly deposited into your account, leave lines 26b through 26d blank. Enter the overpayment on line 27 if you want it credited to your 2006 estimated tax liability.

Refunds will be made as quickly as possible. Please allow 45 days before making an inquiry.

### **ASSISTANCE**

If you have any questions not answered in these instructions, or if you need assistance in preparing your return, call (231) 724-6770 or visit the Income Tax Department, Room 105, City Hall, 933 Terrace Street, Muskegon, Michigan.

NOTE: We will not prepare your return.

### **DECLARATION OF ESTIMATED TAX**

If your 2006 Muskegon Income not subject to withholding is expected to be more than \$10,000 for a resident or more than \$20,000 for a non-resident (after deduction of exemption credits) on which the tax will be over \$100.00, you must file a Declaration of Estimated Tax for 2006 by May 1, 2006 and pay at least one-fourth (1/4) of the estimated 2006 tax with your Declaration.

The balance of the estimated tax, is due in three equal installments to be paid by June 30, 2006, October 2, 2006 and January 31, 2007. You may amend your estimate at the time of making any quarterly payment.

Credit for a 2005 overpayment may be applied to your 2006 estimated tax. Other overpayments are refunded by check, or donated to the D.A.R.E. Program.

A Declaration of Estimated Tax form may be obtained by calling (231) 724-6770 or stopping at the Income Tax Department.

No estimate is required if 70% of current or prior years tax is paid by withholding or another tax credit.

PENALTY AND INTEREST WILL BE CHARGED IF YOU HAVE NOT FILED A REQUIRED ESTIMATE OR IF YOUR ESTIMATES ARE UNDERPAID.

### **CHARGES FOR LATE PAYMENTS**

All tax remaining unpaid at the time a return is filed or after the due date, whichever date is earlier, is subject to penalty and interest. The penalty is 1% per month, not to exceed a total penalty of 25%. The interest rate is 1% above the prime rate on an annual basis.

The minimum charge for penalty and/or interest is \$2.00

NOTE: Copies of federal schedules and/or other documentation explaining and supporting exclusions, adjustments and deductions must be attached to the return. Failure to attach schedules and documentation or attaching incomplete or incorrect schedules and documentation, will delay processing of the return or result in deductions being disallowed.