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BENTON HARBOR CITY TAX

HOSTED BY PLANTE MORAN AND CORNERSTONE ALLIANCE

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Cornerstone
ALLIANCE

ECONOMIC DEVELOPMENT  BERRIEN COUNTY



AGENDA

- History of Michigan City Tax
- Individual Taxation
- Business Taxation
- Required Forms
- Questions



History of Michigan City Tax



HISTORY OF MICHIGAN CITY TAXES

Uniform City Income Tax Act of 1964

- Grants all Michigan cities the authority to levy an income tax.
- Authorizes a uniform tax on a uniform base for all cities.
- The tax rate also remains uniform for most of the cities levying the tax, but over the years a few cities have had exceptions written into the law to authorize the levy of the tax at higher rates.

In order for a Michigan city to impose a city income tax:

1. City council/commission must adopt an ordinance by legislative action.
2. City voters must vote affirmatively to impose the tax.
 - 22 Michigan cities (excluding Benton Harbor) impose a city income tax.
 - The last city before Benton Harbor to approve and implement a city tax was Ionia in 1994.



HISTORY OF MICHIGAN CITY TAXES

For 2016, the following cities levy an income tax of 1% on residents and 0.5% on non-residents:

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

The exceptions to the above rates are as follows:

	<u>Residents</u>	<u>Non-Residents</u>
Detroit	2.4%	1.2%
Grand Rapids	1.5%	0.75%
Highland Park	2%	1%
Saginaw	1.5%	0.75%



INDIVIDUAL TAXATION



KEY TAX DEFINITIONS

Resident

An individual domiciled in the city.

- “Domicile” means a place where a person has his/her true, fixed and permanent home and principal establishment.

Non-resident

An individual domiciled outside the city.

Compensation

Salary, pay, or other compensation or wages given for work done or services rendered in cash or in kind.

- Includes: Salaries, wages, bonuses, commissions, fees, tips, incentive payments, severance pay, vacation pay, sick pay.

Predominant Place of Employment

1. Location the employee estimates he or she will earn the greatest percentage of compensation from the employer **and**
2. The percentage is at least 25%



TAX RATE / TAX BASE

Resident

Tax Rate: 1%

The tax base includes **all** compensation, net profits, investments and other income.

City residents are allowed a credit for nonresident income taxes paid to another city.

Non-resident

Tax Rate: 0.5%

The tax base is measured on:

- Employee compensation earned while working in the city.
- Net profits of a proprietorship, partnership, or other unincorporated business activity conducted in the city.
- Net profits rentals of and capital gains or losses from sales of real or tangible personal property located in the city.



TAX RATE / TAX BASE

Personal Exemptions

- Amount set by local ordinance; \$750
- Additional exemptions are allowed to be claimed for persons:
 - At or over the age of 65 at the end of the year
 - Blindness
 - Deafness
 - Permanent Disability



RESIDENT EXAMPLE

Federal Income: \$52,500

Benton Harbor Income: \$52,500

Benton Harbor Exemption: (~~—~~\$750)

Benton Harbor Income Subject to Tax: \$51,750

Tax (Resident @ 1%): \$517.50

Facts:

- Resident of Benton Harbor
- 35 years old, single, not blind, deaf, or permanently disabled
- Federal Income: \$52,500
- Works 60% of time in Benton Harbor



NON-RESIDENT EXAMPLE

Nonresident Wage Allocation	
Actual days on job for employer (do not include weekends not worked)	260
Vacation, holiday, sick days	(15)
Actual number of days worked	245
Actual number of days worked in city	147
Percentage of days worked in city	60%

Facts:

- Resident of Saint Joseph
- 35 years old, single, not blind, deaf, or permanently disabled
- Federal Income: \$52,500
- Takes 12 vacation days and 3 sick days throughout the year

Federal Income:	\$52,500
Benton Harbor Income:	$\$52,500 * 60\% = \$31,500$
Benton Harbor Exemption	<u>(\$750)</u>
Benton Harbor Income Subject to Tax:	\$30,750
Tax (Non-resident @ 0.5%):	\$153.75



TAX RATE / TAX BASE

Capital Gains and Losses

- Only the gain or loss attributable to the holding period beginning on or after January 1, 2018 is subject to tax.
- For assets acquired prior to 2018, taxable gain or loss is calculated as the sale price less fair market value (FMV) on December 31, 2017.
 - Marketable securities – FMV based on last quoted or bid price on December 31, 2017
 - Other assets – FMV based on appraisal or other reliable evidence
- As an alternative, taxpayer may elect to determine taxable gain or loss based on ratio of holding period days since 1/1/2018 to total holding period days.



BUSINESS TAXATION



CORPORATIONS

- Every corporation, including S corporations, “doing business” in the city, whether or not it has an office or place of business in the city, is required to file an annual tax return.
- Doing business is broadly defined as the conduct of any activity with the object of gain or benefit.
- Activities not considered doing business are:
 - Solicitation of orders for sales of tangible personal property (activity “protected” under federal law).
 - Storage of personal property in the city in warehouse neither owned or leased by the taxpayer.



CORPORATIONS

- Tax base is net profits, which is federal taxable income with modifications.
- The business allocation percentage formula must be used by corporations doing business both within and outside the City of Benton Harbor.
- Equally weighted three-factor formula of “in city” percentages of property, payroll, and gross revenue is used to determine the portion of net profits attributable to the city.



CORPORATION EXAMPLE

Benton Harbor Income:	\$502,500
Benton Harbor Allocation %:	<u>65%</u>
Benton Harbor Income Subject to Tax:	\$326,625
Tax (Corporation @ 1%):	\$3,266.25

Facts:

- Corporation doing business in City of Benton Harbor
- Federal Income: \$502,500
- Business Allocation %
 - Property: 100%
 - Payroll: 75%
 - Sales Factor: 20%



PARTNERSHIPS

- Partnerships are not directly subject to tax, same as for federal income tax.
- Partners are subject to tax on their distributive share of net profits apportioned to the City.
- Partnerships, however, may elect compute and pay the tax on behalf of its partners.
 - For a partner with no other city source taxable income, the partnership filing will satisfy the partners filing requirement.



REQUIRED FORMS



REQUIRED FORMS

Employer

Withholding Registration Form

- Who is required to withhold city income tax from wages paid to employees?
 - An employer who has a location in the city;
 - An employer who is “doing business” in the city, even though no location in the city.
- Who are employers required to withhold on?
 1. All employees that are residents of Benton Harbor whether or not they work inside Benton Harbor; and
 2. All employees that are non-residents of the city who have Benton Harbor as their predominant place of employment.
- Every employer required to withhold Benton Harbor income tax must register by filing an Employer’s Withholding Registration Form (*pending city approval*).
- Quarterly payments of withholding tax shall be remitted to the city. *City to provide further information.*



REQUIRED FORMS

Employer

Employee's Withholding Certificate (Form CF-W-4)

- To determine each employee's place of residence and predominant place of employment an employer must have each employee fill out an Employee Withholding Certificate (W-4).
- Employer will withhold based on W-4 as completed by employee, unless directed otherwise by the City.
- If an employee fails or refuses to complete the W-4 upon request of the employer, tax shall be withheld from the employee's compensation at the resident tax rate.
- The W-4 forms are for the employer's use and must be retained in the employer's files.



REQUIRED FORMS

Employee

Employee's Withholding Certificate (Form CF-W-4)

- Employee has the responsibility to complete the W-4 form and provide to employer.

Required Information

1. Number of personal exemptions
 2. City of residence
 3. Estimated percentage of work to be done in the city, if city is the predominant place of employment; percentage options are: 25%, 40%, 60%, 80%, 100%
- Employee is required to submit an updated W-4 if:
 - Change of residency into or out of the city; due within 10 days of the change.
 - Reduction of personal exemptions; due with 10 days of the change.
 - Predominant place of employment or estimated percentage of work in the city will be different for the next year; due by December 1 preceding the year of the change.



REQUIRED FORMS

Form CF-W-4 — EMPLOYEE'S WITHHOLDING CERTIFICATE FOR MICHIGAN CITIES LEVYING AN INCOME TAX (See list below)

Revised 12/02/2014

1. Print your full name			Social Security No.		Office, Plant, Dept.		Employee Identification No								
2. Address, Number and Street			Apartment	City, Township or Village where you reside			State	Postal Code							
EMPLOYEE: File this form with your employer. Otherwise your employer must withhold tax for the cities without any allowance for exemptions.			EMPLOYER: Keep this certificate with your records. If the information submitted by the employee is not believed to be true, correct and complete, the City Income Tax Department must be advised.					YOUR WITHHOLDING EXEMPTIONS		Resident City Exemptions	Nonresident City Exemptions				
MICHIGAN CITIES LEVYING AN INCOME TAX AND THE VALUE OF ONE EXEMPTION			CHECK BOX IF YOU ARE A RESIDENT OF A LISTED CITY	CHECK BOX IF YOU ARE A NONRESIDENT AND WORK FOR EMPLOYER IN A LISTED CITY	CHECK THE BOX THAT INDICATES THE APPROXIMATE AMOUNT OF TIME WORKING FOR EMPLOYER IN THE CHECKED NONRESIDENT CITY					4. Exemptions for yourself (See cities below)	4				
										5. Exemptions for spouse (See cities below)	5				
					6. Exemptions for your dependent children	6									
					7. Exemptions for your other dependents	7									
								8. Total number of exemptions claimed	8						
								Exemptions allowed by city for taxpayer and spouse, if married.							
										Regular exemption	65 or over at end of year	Blind	Deaf	Permanently Disabled	
Albion \$600			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Taxpayer	<input type="checkbox"/>	<input type="checkbox"/>			
Battle Creek \$750			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Taxpayer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Benton Harbor \$750			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Taxpayer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
										5. Spouse	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



REQUIRED FORMS

Estimated Payments

- Individuals with estimated tax in excess of employer withholding are required to remit estimated income tax payments.
 - Not required if estimated tax is \$100 or less
- Every corporation subject to tax on all or part of its net profits must make estimated income tax payments.
 - Not required if estimated tax is \$250 or less
- Due dates for calendar year taxpayer are: April 30, June 30, September 30, and January 31 of the following year.
- *City to provide further information/forms.*



REQUIRED FORMS

Annual Tax Return

- Calendar year taxpayer: due April 30 following the end of the year.
- Fiscal year taxpayer: due last day of the fourth month following end of the year.
- *City to provide further information/forms.*



QUESTIONS AND DISCUSSION



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