

Instructions for Form 5321

2017 City of Detroit Income Withholding Annual Reconciliation

Filing Requirements

Employers withholding city income tax are required to annually reconcile the city income tax withheld to the city income tax withholding paid. The *City Income Withholding Annual Reconciliation* (Form 5321) is the form used to make this reconciliation, replacing the *City Income Tax Withheld Annual Reconciliation* (Form DW3).

Monthly and quarterly filers must file Form 5321 on a calendar-year basis (not your fiscal year). Taxpayers that had multiple active account numbers (Federal Employer Identification Numbers) in a tax year are required to file separate annual returns for each account number assigned. Taxpayers that use an outside payroll or accounting agency should coordinate this filing responsibility with the agency.

Form 5321 must be signed and dated by the taxpayer or the taxpayer's authorized agent.

W-2 Wage and Tax Statements

Each employer must furnish W-2 statements to employees by January 31. Employers doing business within the city designated must report W-2 information to the Michigan Department of Treasury on or before February 28. When submitting W-2 forms by paper, they must be included with Form 5321. Note that tax withheld for December (or the fourth quarter, if the employer is a quarterly filer) is due on or before January 15.

Form 5321 serves as the transmittal statement for paper W-2 forms. A W-2 must be submitted by an employer doing business in the city designated on Form 5321 for each employee:

- From whom tax has been withheld for the designated city during the year, or,
- Who earned wages in the designated city or lived in that city during the year, even if no income tax was withheld.

Some computer software programs allow the electronic filing of W-2 data in the Social Security Administrations EFW2 format, when Form 5321 is e-filed. Check with your software provider for more details.

All employers registered for city income tax withholding must file Form 5321 each year, even if no tax is due. (Form 5321 is *the only* required form from businesses that file once a year.) For taxpayers who submit monthly or quarterly returns, Form 5321 reconciles the tax due for the year with the monthly or quarterly payments made during the year. Do not use Form 5321 instead of your monthly or quarterly returns. Form 5321 and any payment required are due February 28. No extensions are granted for filing Form 5321.

Late or Insufficient Payment

Returns filed late and without payment of tax due are subject to penalty and interest. Form 5321 instructions for line 11 and line 12 explain how to calculate penalty and interest.

Electronic Filing

Filing of tax returns and payments electronically is accurate, convenient and secure. E-file returns have significantly less

chance of error and are processed faster than paper returns. When e-filing, do not mail a paper copy of Form 5321, unless requested by Treasury to do so.

Visit www.MIfastfile.org for more information.

Line-by-Line Instructions

Lines not listed are explained on the form.

This form is for use by a taxpayer filing a City of Detroit Income Tax Withholding Annual Reconciliation for 2017. This tax is administered by the Michigan Department of Treasury on behalf of the City of Detroit.

Only report income tax withholding attributable to the City of Detroit.

Taxpayer's Business Name: The business name entered on this return should be the same business name submitted on your *City of Detroit Income Tax Withholding Monthly/Quarterly Return* (Form 5323).

Federal Employer Identification Number (FEIN): Use the same FEIN that was used when filing Form 5323.

NOTE: If the taxpayer does not have an FEIN, the taxpayer must obtain an FEIN before filing a City of Detroit Income Tax Withholding Return. Go online to www.michigan.gov/business taxes for information on obtaining an FEIN. Returns received without a registered account number will not be processed until such time as a number is provided.

Street Address: Enter the complete address, including the two-digit abbreviation for the country code.

Foreign Filers: Complete the address fields as follows:

- Address:** Enter the postal address for this taxpayer.
- City:** Enter the city name for this taxpayer. DO NOT include the country name in this field.
- State:** Enter the two-letter state or province abbreviation. If there is no applicable two-letter abbreviation, leave this field blank.
- ZIP/Postal Code:** Enter the ZIP Code or Postal Code.
- Country Code:** Enter the two-letter country code provided in the list of codes available online at michigan.gov/taxes. See the City of Detroit Withholding Tax page.

COMMONLY USED COUNTRY CODES	
United States	US
Canada	CA
Mexico	MX

NOTE: Any correspondence regarding the return filed and/ or refund will be sent to the address provided on this form. The taxpayer's primary address on file with Treasury, identified as the legal address and used for all purposes other than refund and correspondence on a specific City Income Tax Withholding Annual Reconciliation return, will not change unless the taxpayer files a *City of Detroit Notice of Change* (Form 5439) with Treasury.

Date of Discontinuance: Enter the date, if applicable, the taxpayer discontinued its business.

Reason Code for Discontinuance: Enter the two-digit code that best represents the reason for discontinuance from the table below.

01	Business Closed
02	Sale of Business
10	Other

- If selecting “Other,” include a separate page providing an explanation.

Reason code if amending: Using the table below, select the two-digit code that best represents the reason for amending the return.

01	Increasing tax liability
02	Decreasing tax liability
03	Incorrect information/figures reported on original return
04	Original return was missing information/incomplete
10	Other

- If selecting “Other,” provide a brief explanation of the reason in the space provided.

IMPORTANT: When amending a return you **MUST** enter a reason code **AND** place an “X” in the “Check if this is an amended return” box located in the upper right of the return.

Line 1: Enter your total gross payroll and other compensation subject to income tax withholding in the City of Detroit, for the year.

Line 3: Enter the total City of Detroit income tax withheld for the year.

Line 4: Enter the total City of Detroit income tax withheld that was paid on your monthly or quarterly returns. Do not include penalty and interest.

Line 5: If amending a return previously filed, enter any overpayment received on the original return or previous amended return.

Line 7: If amending a return previously filed, enter the amount that was paid with your original return plus any additional tax that was paid after the original return was filed. **Do not** include penalty and interest paid with the original return.

Line 9: Refund. The taxpayer should not request a refund if they overwithheld City of Detroit Income Tax from an employee and the overage is reported on the employee’s W-2.

NOTE: A refund is allowed if the taxpayer reported an amount in error (either a clerical error or data that conflicted with a correctly prepared W-2) or incorrectly prepared a W-2 for an employee but then re-issued a corrected W-2. If requesting a refund, include a detailed written explanation.

Line 11 and Line 12: How to compute penalty and interest:

- If your return is filed with additional tax due, include penalty and interest with your payment. Penalty is 1% of the tax due and increases by an additional 1% per month or fraction thereof, to a maximum of 25%.
- Interest is charged daily using the average prime rate, plus 1 percent.

REMINDER: Taxpayers must sign and date returns. Preparers must provide a Preparer Taxpayer Identification Number (PTIN)

or Social Security Number (SSN), as well as a business name, business address and phone number.

Mailing Address

Mail your Annual Reconciliation return to:

Michigan Department of Treasury
City of Detroit
PO Box 30812
Lansing MI 48909

NOTE: Form 5321 is used to amend a previously filed tax year 2017 annual return. To amend Form 5321, complete the return with the corrected figures and place an “X” in the “Check if this is an amended return” box located in the upper right hand corner of the return. For completing the “Reason Code if amending” field, see the line-by-line instructions.

2017 City of Detroit Income Tax Withholding Guide

NOTE: Effective with the 2017 tax year, the Michigan Department of Treasury will administer the City of Detroit Income Tax Withholding. Taxpayers will use new forms, and submit returns and payments to new addresses. Read these guidelines for additional information. Questions about 2016 City of Detroit Income Tax Withholding returns and payments should be directed to the City of Detroit at 313-224-3315.

Who Must Withhold?

Every employer that has a location in the City of Detroit, or is doing business in the City of Detroit, even if it has no location in the City of Detroit, is required to withhold income tax from its employees. *An employer* is any individual, partnership, association, corporation, non-profit organization, governmental body or unit or agency, or any other entity that employs one or more persons on a salary, bonus, wage, commission or other basis whether or not the employer is in a business.

For example:

- A construction firm from Ohio doing work in the City of Detroit is required to withhold income tax from its employees.
- An employer that has locations both in and out of the City of Detroit must withhold income tax from all employees working in the City of Detroit, and from all City of Detroit resident employees working in or out of the City of Detroit.
- A non-profit organization in the City of Detroit is required to withhold income tax from its employees (although it is not engaging in business activity in the usual sense).
- Employers that are not required to withhold City of Detroit income tax may register and withhold for the convenience of their City of Detroit resident employees. Convenience withholders must comply with the registration and filing requirements outlined in these instructions.

NOTE: Employers withholding City income tax are required to file the *City of Detroit Income Tax Withholding Monthly/Quarterly Return* (Form 5323) either monthly (\$1,200 or more withheld per year) or quarterly (\$1,199 or less withheld per year) **AND** the *City of Detroit Income Tax Withholding Annual Reconciliation* (Form 5321).

From Whom to Withhold

An employer must withhold on compensation paid to the following employees:

- All residents of the City of Detroit whether or not they work inside the City of Detroit; and
- All nonresidents of the City of Detroit who have the City of Detroit as their predominant place of employment (see below).

An employee is anyone from whom an employer withholds either federal income tax or social security tax.

Compensation Subject to Withholding

City of Detroit income tax must be withheld from:

- All compensation (salaries, wages, commissions, severance pay, bonuses, etc.) of a City of Detroit resident for services rendered or work performed regardless of whether such services or work are performed in or out of the city; and
- All compensation of a nonresident for services rendered or work performed in the City of Detroit where the City of Detroit is the predominant place of employment.

Vacation, holiday, sick, severance and bonus pay to nonresidents who perform part but not all of their work or services in the City of Detroit are taxable in the same ratio as their normal activities.

Example: A nonresident employee who is subject to withholding on 60% of their earnings, because 60% of their work is performed in the City of Detroit, is also subject to withholding on 60% of their vacation, holiday, sick pay, severance pay, bonus pay or wage payments during periods of sickness.

Payments Not Subject To Withholding

Withholding does not apply to:

- Wages paid to domestic help;
- Fees paid to independent contractors who are not employees;
- Payment to a nonresident employee for work or services performed in the City of Detroit, if the predominant place of employment is not the City of Detroit;
- Payment to a nonresident employee for work or services rendered outside of Detroit;
- Pensions and annuities, worker's compensation and similar benefits;
- Amounts paid for sickness, personal injury or disability (so called excludable sick pay) to the same extent that these amounts are exempt from federal income tax, but the employer must withhold from such payments if federal tax is withheld;
- Amounts paid to an employee as reimbursement for expenses incurred in performing services.

An individual with income described in the first three bullets above is not subject to withholding on such income. The individual is nevertheless required to file an annual return and report such income if the individual is a City of Detroit resident, or is a nonresident earning such income in the City of Detroit.

DW-4 Forms Required

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* (Form DW-4). Only one Form DW-4 is required for each employee, even though the employee may be subject to withholding for two cities.

When properly filled out, Form DW-4 provides the employee's city of residence and the two cities or communities in which the employee earns the greatest percentage of compensation from the employer. Most employees will only have one city of employment and will circle 100% as the percentage of compensation earned in that city. Form DW-4 is also the employee's statement of the number of dependency exemptions claimed.

If an employee fails or refuses to complete Form DW-4 upon the request of the employer, tax shall be withheld from the employee's compensation at the resident tax rate without any consideration of exemptions.

Do not mail DW-4 forms to the city or the Michigan Department of Treasury; these are for the employer's use and must be retained in the employer's files.

Income Tax Rates

The City of Detroit income tax rate for residents is 2.4% (multiply by 0.024). The City of Detroit income tax rate for nonresidents is 1.2% (multiply by 0.012).

Calculating the Amount to Withhold

The City of Detroit Income Tax is a straight percentage on compensation after an adjustment for personal and dependency exemptions. Each exemption is valued at \$600.00 per year. For the various pay periods the exemption translates to the amounts in the table below.

Weekly	\$11.54
Bi-weekly	\$23.08
Semi-monthly	\$25.00
Monthly	\$50.00
Per diem/daily	\$ 1.64

Exemptions are allowed for the employee, spouse, and other dependents allowed under federal rules. Additional exemptions are allowed if either the employee or spouse is 65 years of age or older, or blind (this is different from the federal rule).

Individuals who may be claimed as an exemption on the individual return of another taxpayer should report zero personal exemptions on the Form DW-4.

The amounts in the preceding table are used to adjust gross pay for payroll withholding. The adjustment is the number of exemptions on Form DW-4 multiplied by the exemption value. On a weekly payroll for a wage earner with three (3) exemptions, the adjustment is 3 times \$11.54, or \$34.62.

The following is a description of the most commonly used method to compute income tax withholding:

- Multiply gross earnings by the percent earned in Detroit for nonresidents or use gross earnings for residents.

- Multiply number of exemptions by the appropriate exemption value (from the prior table).
- Subtract the result of Step 2 from the result of Step 1.
- Multiply the result from Step 3 by:
 - 2.4% (0.024) for residents; or
 - 1.2% (0.012) for nonresidents.

EXAMPLE: Gross pay is \$200.00 per week and the wage earner lives in Detroit and has 3 exemptions. The amount taxed is \$165.38 (\$200.00 - \$34.62). Apply the 2.4% resident rate (\$165.38 x 0.024), and withhold \$3.97 from the employee for the week.

The above method is applicable to all City of Detroit withholding for regular payrolls. For bonuses or other taxable earnings paid in addition to regular payroll, do not adjust for exemptions. Withhold the correct tax percentage from the entire bonus or other taxable earnings amount.

Resident – Employment in Other City Levying a Tax

When a resident is employed at a job in a city other than the City of Detroit and the other city levies an income tax, the employer must withhold separately for both the City of Detroit and the other city. The rate of income tax to be withheld for the City of Detroit depends on the tax rate of the other city. Compute the City of Detroit withholding rate by subtracting the other city's nonresident tax rate from 2.4%.

Nonresident – Employment Partly in Detroit

If a nonresident of the City of Detroit works less than 100% of the time within the City of Detroit for an employer, the amount withheld should be based only on wages earned in the City of Detroit. If gross pay is \$200.00 and only 60% of the employee's work is in the City of Detroit, the gross pay for the City of Detroit tax purposes is 60% of \$200.00 or \$120.00. In this example, compute the amount to be withheld for the City of Detroit as if the employee earned \$120.00 gross pay.

Nonresident – Predominant Place of Employment

Nonresidents of the City of Detroit are subject to withholding only if the City of Detroit is their predominant place of employment. The predominant place of employment is that city imposing a tax under a uniform city income tax ordinance other than the city of residence, in which the employee estimates he will earn the greatest percentage of his compensation from the employer, which percentage is 25% or more.

The City of Detroit is a nonresident's predominant place of employment if:

- The nonresident employee earns a greater percentage of compensation in the City of Detroit than any other Michigan city with an income tax, except the employee's city of residence; and
- This greater percentage constitutes 25% or more of the nonresident employee's total compensation from the employer.

Payment of Tax Withheld

Payment of tax withheld may be made in the following ways:

- Paper check via U.S. mail or courier with the filing of a paper return.
- Paper check via U.S. mail or courier with the *City of Detroit Income Tax Withholding Monthly/Quarterly Return* (Form 5322), when the return was previously e-filed.
- Electronically via ACH debit when e-filing the return.
- Electronically via ACH debit when using Treasury's online payment system at www.michigan.gov/biztaxpayments. The *Electronic Funds Transfer (EFT) Debit Application* (Form 2248) must be submitted to Treasury for approval before payments can be made using the online payment system.
- Electronically through your financial institution via ACH credit with an addendum file. The *Instructions for Payment of Michigan Sales, Use, Withholding and Other Michigan Business Taxes Using Electronic Funds Transfer (EFT) Credit* (Form 2329) list the requirements for making ACH credit payments.

Forms are available on the Michigan Department of Treasury's Web site at www.michigan.gov/citytax. For tax year 2017, Treasury will mail forms to registered taxpayers.

Due Dates

Monthly returns:

The *City of Detroit Income Tax Withholding Monthly/Quarterly Return* (Form 5323) and payments (if applicable) are due on the 15th day of the month following the month in which the tax was withheld.

Quarterly returns: Form 5323 and payments (if applicable) are due on the 15th day of the month following each quarter. For the 2017 tax year, these due dates are April 15, July 15 and October 15, 2017, and January 15, 2018.

NOTE: Form 5323 must be filed even if there is no tax liability for the period.

NOTE: If a due date falls on a holiday or weekend, the due date shifts to the first business day following the weekend or holiday.

Annual Reconciliation: The *City of Detroit Income Tax Withholding Annual Reconciliation* (Form 5321) and payments (if applicable) are due February 28, 2018.

Correction of Errors

Employer's errors of over or under withholding should be corrected as follows:

- If an error is discovered in the same period (month or quarter) in which it was made, the employer shall make the necessary adjustment in a subsequent payment. Only the corrected amount should be included in the return to the city;
- If an error is discovered in a subsequent period of the same calendar year, the employer shall make the necessary adjustment on a subsequent payment and report it as an adjustment on the next return;
- If an error is discovered in the following calendar year, the employer shall notify the City Income Tax Division of the

Michigan Department of Treasury of the error by filing an amended Form 5321 including corrected W-2 forms (W-2C), if applicable, and:

- Pay any additional tax due; or
- Make a written request for refund of an overpayment including a specific explanation of the error.

NOTE: Overpayments of withholding will not be credited toward tax due in future years.

Registration, Changes to Account or Sale or Discontinuance

Registration: Taxpayers must first be registered for State of Michigan withholding taxes before filing a *City of Detroit Income Tax Withholding Annual Reconciliation* (Form 5321). If the taxpayer does not have a Federal Employer Identification Number (FEIN), the taxpayer must obtain an FEIN before filing a *City of Detroit Income Tax Withholding Return*. Visit www.michigan.gov/business taxes for information on obtaining an FEIN and to register a new business (located under "New Business Registration").

Changes to Account: Changes to your account such as address and adding *City of Detroit Corporate Income Tax* or *City of Detroit Income Tax Withholding* (if already registered with Treasury) can be made by completing the *City of Detroit Notice of Change* (Form 5439).

Sale or Discontinuance: An employer who sells, goes out of business or permanently ceases to be an employer must file W-2s, Form 5439, and a Form 5321 by the date the final withholding payment is due. You must indicate within Form 5321 the Date and Reason Code for Discontinuance.

NOTE: Changes requested on Form 5439 will ONLY update your *City of Detroit Income Tax Withholding* accounts. To make changes to State of Michigan Business Taxes please visit www.michigan.gov/business taxes.

Annual Reports

Employers doing business within the city designated on the *City of Detroit Income Tax Withholding Annual Reconciliation* (Form 5321) must report W-2 information to the Michigan Department of Treasury on or before the last day of February. When submitting W-2 forms by paper, they must be included with Form 5321. Form 5321 is available on the Michigan Department of Treasury's website.

A copy of Form W-2 issued to each employee subject to the Detroit income tax must be filed whether the tax was withheld or not. The Form W-2 must provide the following information:

- The name, address and federal identification number of the employer.
- The name, home address and social security number of the employee.
- The total gross wages paid the employee for the year even if the total wages did not have Detroit tax withheld.
- The total Detroit tax withheld for the year. The amount of tax withheld must be clearly labeled as being Detroit income tax withheld, and the label must be in the appropriate box on Form W-2. Failure to properly and clearly label the Detroit tax withheld in the locality box of Form W-2 makes the form

unacceptable. Improperly labeled W-2 forms do not satisfy the withholding tax reporting requirements of the Detroit Income Tax Ordinance.

Employers wishing to purchase one of the commercially available W-2 forms in order to combine the city, state and federal reporting in one operation are permitted to do so, providing one copy is submitted to the City by the employer.

Employers may file W-2 forms via CD-ROM in lieu of paper W-2's. Information and specifications for filing via CD-ROM are available on the Michigan Department of Treasury's Web site at michigan.gov/taxes; see the Transmittal for Magnetic Media Reporting (Form 447).

Some computer software programs allow the electronic filing of W-2 data in the Social Security Administrations EFW2 format, when Form 5321 is e-filed. Check with your software provider for more details.

Forms, Instructions and Information

Income tax forms, instructions and additional information are available on the Treasury website at www.michigan.gov/citytax.

Additional information is available at 517-636-5829. Assistance is available using TTY through the Michigan Relay Service by calling 1-800-649-3777 or 711. Customer service representatives are available from 8 a.m. to 4:45 p.m., Monday through Friday. Call 517-636-5829 for printed material in an alternate format.

Self Service Options. Visit our secure website at www.michigan.gov/citytax to check the status of your return. This service is available 24 hours a day, seven days a week.

• **IMPORTANT:** To obtain information about your account using the Internet you will need the following information from your City return:

- Federal Employer Identification Number (FEIN).
- City (Detroit).
- Form number of return filed (Form 5321 or 5323).
- Tax year of return.
- And whether the item in question is a monthly/quarterly or annual return.

Electronic Funds Transfer (EFT) Debit and Credit Payments

EFT Debit: Your existing Treasury user ID and password can be used to access both the online payment process and the existing touch-tone phone system once you have added City of Detroit Withholding Tax. If you do not have a user ID and password and/or have not added City of Detroit Withholding Tax, you must complete and submit an *Electronic Funds Transfer (EFT) Debit Application*. (See www.michigan.gov/citytax for more information.)

If submitting an EFT Debit payment using a computer software program, an *EFT Debit Application* is not required.

EFT Credit: Follow instructions on the *Instructions for Payments of Michigan Sales, Use, Withholding, and Other Michigan Business Taxes Using Electronic Funds Transfer (EFT) Credit* (Form 2329) to submit an EFT Credit payment.

Electronic Filing

Filing of tax returns electronically is accurate, convenient, and secure. The City Withholding e-file program provides Michigan taxpayers the opportunity to e-file City of Detroit income tax withholding returns, including amended returns, that were prepared using a computer software program. Some computer software programs also allow taxpayers to make an electronic payment via EFT Debit when e-filing their return. If an error occurs on a return, the e-file software sends an error message and allows the tax preparer to immediately correct the mistake before the return is transmitted.

There is no e-file mandate for City of Detroit income tax withholding returns. However, e-file returns have significantly less chance of error and are processed faster than paper returns. When e-filing, do not mail a paper copy of your return, unless requested by Treasury to do so. For more information on Treasury's E-file Programs, visit www.MIfastfile.org.