Land Owned With Someone Other Than a Spouse

Taxes on land owned jointly are allocated to each owner. If co-owners divide each item of revenue and expenses and choose to allocate the property taxes that same way, they may do so only if they attach a copy of a signed statement by each owner. The statement must show each owner's share of the revenues and expenses. This requirement can be met by completing Part 2 of MI-1040CR-5. If a signed income distribution statement is not attached, the taxes must be allocated equally among the owners, with two exceptions:

- A husband and wife are considered one owner.
- An owner eligible to be claimed as a dependent by another owner cannot receive a share of the taxes and cannot claim a credit for that farmland.

Land Owned by a Limited Liability Company

Property taxes on land owned by a limited liability company are allocated to each member in a percentage equal to the member's share of ownership or distributive share of ordinary income as reported by the limited liability company to the Internal Revenue Service (IRS).

Land Owned by an S Corporation or Trust

Beginning with credits for 1988, taxes on land owned by an S corporation are allocated to each shareholder based on the shareholder's share of the corporation's stock. This percentage is on U.S. Form *1120S, Schedule K-1*. **Exception:** If the S corporation had an FDRA before 1989, and in 1991 elected to file under the SBT Act on C-8022, the S corporation must continue to file under the Michigan Business Tax (MBT). If the FDRA was not in the S corporation's name before January 1, 1989, the taxes on land covered by this agreement must be claimed on the shareholders' Michigan income tax using MI-1040CR-5. These taxes must be claimed by the shareholders even if the S corporation elected to file C-8022 for other agreements that the S corporation entered into before January 1, 1989.

For farmland owned by a grantor trust, if you are treated as the owner of that trust under IRC sections 671 through 679, you must include a copy of that portion of the trust agreement that shows you are the owner of a grantor trust holding title to the farmland.

If the trust was created by the death of a spouse and requires 100 percent of the income to be distributed to the surviving spouse, you must attach a copy of U.S. Form *1041* and *Schedule K-1*, if required.

Claiming a Credit on a Farm Purchased in 2012 That Was Already Enrolled in the Farmland Program

Your farmland credit will be processed only if there is a farmland agreement on file with the MDARD **in the same name as your deed.** You must prorate the 2012 taxes for the period you owned the land and claim your credit based only on those taxes.

Filed for Bankruptcy

If you are enrolled in the Farmland and Open Space Preservation Act program and have petitioned for bankruptcy (under U.S. Bankruptcy Code, chapters 7, 11, 12, or 13), claim your credit on MI-1040CR-5 and attach it to your Michigan income tax return.

You must prorate your credit for the part of the year ending when the petition in bankruptcy was filed. The trustee in bankruptcy or the landowner as Debtor in Possession may file a claim for the portion of the year following the date of petition. Bankruptcy estates are also required to file a *Fiduciary Income Tax Return* (MI-1041).

Transferring an Agreement

To transfer an agreement, you must show that all of the land described under the agreement has been conveyed. The MDARD will need a copy of the legal document (e.g., deed, land contract) used for conveyance and the new owner's name, address, Social Security number, and a fee of $25 per transfer.

For more information on the Farmland Preservation Agreement contact:

Farmland and Open Space Preservation Unit
Environmental Stewardship Division
Michigan Department of Agriculture and Rural Development
P.O. Box 30449
Lansing, Michigan 48909

Line-by-Line Instructions for Schedule CR-5 and MI-1040CR-5

Lines not listed are explained on the forms.

Schedule CR-5

Column A: Agreement number or contract number is found in the lower-right corner of each agreement. The first two numbers represent the county where the property is located. The middle set of numbers is the actual contract number. The last six numbers are the year of expiration, (i.e., 123112 is December 31, 2012). The contract number retains its original series throughout the term of the agreement. However, a letter may be added to indicate that the agreement was split into multiple agreements. The final six numbers change when the agreement is reduced or extended. Always use the contract number on your most recently recorded agreement and attach a copy of each 2012 tax statement that corresponds to the agreement number listed.

Column B: List the 2012 taxable value for each agreement that you owned in 2012. The taxable value is found on your property tax statement(s) for each parcel. The total taxable value for each agreement must be listed; do not list each individual parcel. You may also contact your local assessor for this information.

Note: If the property tax statement includes taxable value for land not covered by an FDRA, the taxable value reported in column B must be adjusted accordingly. The taxable value that cannot be claimed must be determined by the local assessor's office and submitted on official letterhead.

If the property tax statement includes taxable value for land on more than one agreement, the taxable value reported in column B must be separated according to land in each agreement. The local assessor will be able to determine what the breakdown is based on the legal descriptions of the land enrolled under each agreement.

The entire taxable value for the agreement must be entered in column B even if you are eligible to claim only a portion of the property taxes because of joint ownership(s), partnership(s), or multiple shareholders.

Column C: For each agreement, check the box if you attached paid tax receipts for 2011 or 2012. If paid receipts are not attached, do not check the box. If you do not check the box, your Farmland Preservation Tax Credit will be issued jointly to you and the treasurer for the county where the property is located.

Note: Copies of your 2012 property tax statements must be attached regardless of whether the box is checked in column C. If you e-file your MI-1040CR-5, the box must indicate whether your 2011 or 2012 property taxes are paid (not whether they are attached to the return). E-filers, do not send property tax statements unless requested to do so by Treasury at a later date. However, when e-filing, be sure to check the box on Schedule CR-5, column C, when taxes have been paid.

Column D: Enter "I" if you are the individual owner or co-own the land with your spouse, "J" if you are a joint owner with someone other than your spouse, "P" if the land is owned by a partnership, or "S" if the land is owned by an S corporation.

Column E: If the land is owned by you and someone other than your spouse, enter your percent of income from the signed statement or your percent of ownership based on the number of owners. If the land is owned by a partnership, enter your percent of income or ownership. All partners must use the same basis for filing. If the land is owned by an S corporation, enter your percent of stock ownership.

Column F: Individuals enter the taxes from each tax agreement for the portion of land enrolled under an agreement. **Joint owners, partners, and shareholders** enter only their allocated share of taxes from each tax statement for the portion of land enrolled under an agreement.

Note: If the property tax statement includes taxes for land not covered by an FDRA, the taxes reported in column F must be reduced accordingly. The amount of taxes that cannot be claimed must be determined by the local assessor's office and submitted on official letterhead. The 1 percent collection fee may be included. Do not include penalties, interest, or special assessments.

If the property tax statement includes taxes for land on more than one agreement, the taxes reported in column F must be separated according to land in each agreement. The local assessor will be able to determine what the breakdown is based on the legal descriptions of the land enrolled under each agreement.

Column H: Multiply line 13 or 18 from the MI-1040CR-5, whichever applies, by the percentage computed in column G for each agreement and enter in column H.

MI-1040CR-5

Line 5: Check the box if all of the taxes that qualify for a Homestead Property Tax Credit are included in the total on line 4.

Before completing line 8, read "Computing the Homestead Property Tax Credit" on page 4.

Line 8: Enter your total household resources from your MI-1040CR, MI-1040CR-2, or MI-1040CR-7. If you are a part-year or nonresident, include total 2012 total household resources, regardless of source.

Line 13: Enter amount of property tax from line 4. This line **must be completed.**

Line 17: If line 17 is less than line 7, carry amount from line 15 to Form MI-1040, line 26. If line 17 is greater than line 7, complete lines 18 through 20.

PART 2: If you own farmland jointly with someone other than your spouse, complete Part 2. For each agreement, enter the information for each owner.

Partners may use Part 2 to show percentage of income or ownership if no U.S. Form *1065* was required. All partners must sign.

PART 3: If you had net losses from business (including farm) after netting all business income and loss, net rental or royalty losses, or net operating loss deductions, complete Part 3.

Line 21: Add the amounts from:

- U.S. Schedule C (Profit or Loss from Business).
- Part II (Ordinary Gains and Losses) of the U.S. Form 4797.
- Part II (Income or Loss from Partnership and S Corporations) and Part III (Income or Loss from Estates and Trusts) of the U.S. Schedule E.
- Include income items reported as a distributive share.

Line 22: Enter income or loss from U.S. Schedule F (Profit or Loss from Farming)

Line 23: Total must be less than zero. If the total is positive enter "0."

Line 24: Add the amounts from:

- Part I (Income or Loss from Rental Real Estate and Royalties) of the U.S. Schedule E.
- Part IV (Income or Loss from Real Estate Mortgage Conduits (REMIC)) of the U.S, Schedule E (rents, royalties).
- Part V (Net farm rental income or (loss) from Form 4835) of the U.S. Schedule E.

Total must be less than zero. If the total is positive enter "0".

Line 25: Enter the lesser of your federal net operating loss (NOL) or federal modified taxable Income (FMTI). Compute your FMTI using page 3 of Form MI-1045.