



AccountingAidSociety

Debts Owed to the state

Debts Owed to the State

- By law, **any money owed** to the State of Michigan or other state agencies **must be deducted from a taxpayer's refund or credit** before it is issued.

Debts may include:

- **Past-due Michigan taxes**
 - ***Example:** Mike owes \$800 from a 2021 Michigan income tax bill. When he files his 2025 return, the state applies his \$600 refund toward that old balance.*
- **Student loans**
 - ***Example:** Sara has a defaulted \$2,000 federal student loan. The state intercepts her \$400 Michigan tax refund to send to the loan servicer.*
- **Child support (via Friend of the Court)**
 - ***Example:** Kevin is behind on child support payments by \$1,200. The Friend of the Court requests that his \$750 Michigan tax refund be applied toward the arrears.*
- **IRS levies**
 - ***Example:** The IRS placed a levy on Jim's assets for unpaid federal taxes. His \$500 Michigan refund is sent to the IRS instead of to him.*
- **Debts to other state agencies**
 - ***Example:** Emily owes \$300 to the Michigan Department of Health and Human Services for overpaid benefits. The state uses her \$350 refund to pay that debt.*
- **Court-ordered garnishments or other court orders**
 - ***Example:** A court orders Ashley to pay \$1,000 to settle a civil judgment. Her \$450 Michigan tax refund is intercepted and sent to the creditor.*
- If a taxpayer brings in a completed **Form 743**, always involve your **site coordinator**.

Debts Owed to the State

- **Married taxpayers filing jointly** may be issued **Form 743, Income Allocation for Non-Obligated Spouse**, after the return is filed.
 - Filing this form may **limit how much of the refund can be applied to the debt**.
 - If Treasury applies any portion of a refund to a debt, a **letter of explanation will be sent**.
 - This form is generally mailed **when Federal Form 8379 (Injured Spouse) is filed**.
- If the taxpayer **cannot file Form 8379 (e.g., no federal refund)**:
 - The client may **paper file their Michigan return** and **write at the top: “REQUEST FORM 743 – INJURED SPOUSE.”**
 - Treasury will then **mail the personalized Form 743** to the taxpayer.
 - Once they receive Form 743, the taxpayer **can return to our site and we will help them complete it**.

Site coordinators should be involved if a taxpayer brings in Form 743.

Debts Owed to the State

Example:

Tanya and Robert file their 2025 federal and Michigan returns jointly. Robert owes \$2,500 in back child support through the **Friend of the Court** from before their marriage.

When they filed their federal return, Tanya submitted **Form 8379 (Injured Spouse)** to protect her share of the federal refund. Because of this, the Michigan Department of Treasury automatically mails them **Form 743, Income Allocation for Non-Obligated Spouse**, after their state return is processed.

On the Michigan form, Tanya reports her own income and withholding separately from Robert's. After review, Treasury determines that \$600 of the \$1,000 Michigan refund is Tanya's share and should be paid to her. The remaining \$400 is applied toward Robert's child support debt.

A letter of explanation is sent to both taxpayers detailing how the refund was allocated.

Injured Spouse, Michigan Form 743

- If the client wishes to have the entire refund applied to the debt, do not complete the form. Instead, check the box “**Apply refund to the debt(s)**” provided above the signature area on page 2 of the form. Each spouse must sign and date the form.
- If the form does not have both signatures or a signed statement attached, the full refund, if needed, will be applied to the debt.
- The Michigan Department of Treasury does not accept Form 8379, Injured Spouse Allocation. It is an IRS form. Form 743, Michigan Income Allocation for Non-Obligated Spouse, is the only form accepted by the Michigan Department of Treasury when allocating income between spouses.
- The personalized form is the only form that will be accepted.
 - Under no circumstances will another form be accepted.
- Once the form is submitted, no changes will be accepted.

Injured Spouse, Michigan Form 743

Form 743 Allocation Rules – Key Guidelines

- **Do not adjust** any figures printed on the form by the **Michigan Department of Treasury**.
- Only file an **amended Michigan return** if there was an error on the original return **not corrected by Treasury**.
- To calculate each spouse's **income percentage ratio**:
 - Divide each spouse's income by the **joint total income** to determine the income percentage ratio.
 - **Allocate the amounts to the spouse** who earned the income as though you had **filed separate federal income tax returns**.
 - Income earned jointly is usually split **equally**.
 - Allocate income, adjustments to income, additions, subtractions and deductions to your **adjusted gross income as reported on the Michigan return to the applicable spouse**.
 - If one spouse has **zero or negative income**, that amount should be used to reduce the taxable income of the other spouse.
 - Credits for **charitable contributions** can be split **evenly or assigned** to the contributing spouse.
 - Earned Income Credit is prorated based on each spouse's income percentage ratio

Injured Spouse, Michigan Form 743

Claiming Exemptions on Michigan Form 743

- Each person is entitled to a **personal exemption**, including any special exemptions that he or she would be **entitled to claim** if separate Michigan returns were filed. (This includes stillbirth exemption)

Example:

Ben and Lisa are married and file a joint Michigan return. Lisa has no income. Ben earned all the income and completes **Form 743** to protect his portion of the refund.

Lisa qualifies for a **stillbirth exemption**, and Ben qualifies for a **disabled veteran exemption**.

Even though Lisa didn't have income, **Ben can claim both his own personal and special exemptions, as well as Lisa's**, because on **Form 743**, each spouse is entitled to exemptions they would get if filing separately.

- If one spouse had **zero or negative AGI or taxable income**,
 - the **other spouse** should claim the **full exemption(s)**.

Injured Spouse, Michigan Form 743

Claiming Exemptions on Michigan Form 743

- **Dependent exemptions** must be **prorated** based on each spouse's share of income:
 - Use the ratio of each spouse's income to the **federal adjusted gross income (AGI)**.
 - This rule applies **even if the dependents belong to only one spouse** (e.g., from a prior marriage).

Example:

Emily and John are married and file jointly. Emily earned \$40,000 and John earned \$20,000.

Emily has one child from a previous marriage.

Even though the child is Emily's, the exemption for the child must be **prorated**:

- Emily's share of income: $40,000 \div 60,000 = 67\%$
- John's share of income: $20,000 \div 60,000 = 33\%$

The dependent exemption is divided accordingly between them.

Injured Spouse, Michigan Form 743

Homestead Property Tax Credit Allocation

- A homestead property tax credit is divided equally between both spouses if the property is owned jointly, regardless of who earned the income.
- If the property is owned or leased by one spouse, that spouse may claim the entire credit.
- Proof must be furnished at the time Form 743 is filed.
- Copies of utility bills and/or mortgage escrow statements are not acceptable proof.
- Acceptable proof would be:
 - A copy of the lease for the tax year the credit is being claimed
 - A notarized statement from a landowner
 - A copy of property tax statements from the local assessor
 - A copy of the deed to the property.
- If proof of sole ownership or leasehold is not received with Form 743, Income Allocation for Non-Obligated Spouse, the credit will be divided equally between both spouses.

HPTC Allocation Examples

Example 1:

Anna and James are married and file a joint Michigan return.

- They **own their home jointly**.
- Anna earned all of the income for the year.
- James had no income.

Since the home is owned **jointly**, the **homestead property tax credit is split equally**, even though only Anna had income.

Example 2:

Michael and Lisa are married but only **Michael's name is on the property deed**.

- Michael and Lisa file a joint return.
- Michael earned \$30,000; Lisa earned \$15,000.
- Since only **Michael owns the home**, **Michael can claim the entire homestead property tax credit**.

Injured Spouse, Michigan Form 743

Form 743: When the Primary Filer is Deceased

- The **surviving spouse** automatically becomes the **primary filer** on the return.
- If the **deceased spouse owes a debt**, the surviving spouse **may still receive a portion of the refund**
 - as long as **Form 743, Income Allocation for Non-Obligated Spouse**, is completed.
- A **copy of the death certificate** must be attached when submitting **Form 743**.

Practice Scenario

Scenario:

Kevin and Jessica are married and file a **joint Michigan return**.

- Kevin owes **past-due state income taxes** from a previous year.
- Jessica has **no past-due debts** and earned **\$38,000** in 2025.
- Kevin earned **\$12,000** in 2025.
- They are eligible for a **Michigan refund** this year.
- Jessica doesn't want **her share** of the refund to be applied to Kevin's old debt.

Question:

What should Jessica do to protect her portion of the joint refund?

Practice Scenario

Scenario:

Kevin and Jessica are married and file a **joint Michigan return**.

- Kevin owes **past-due state income taxes** from a previous year.
- Jessica has **no past-due debts** and earned **\$38,000** in 2025.
- Kevin earned **\$12,000** in 2025.
- They are eligible for a **Michigan refund** this year.
- Jessica doesn't want **her share** of the refund to be applied to Kevin's old debt.

Question:

What should Jessica do to protect her portion of the joint refund?

Answer:

Jessica should file **Michigan Form 743 (Injured Spouse Allocation)** with their **joint MI-1040**.

This form will allow the Michigan Department of Treasury to **determine how much of the refund belongs to her** and prevent her portion from being used to pay Kevin's debt.

Practice Scenario


Mike and Rachel are married and file a joint 2025 Michigan return. Mike owes \$1,200 in past-due child support. Rachel has no debts and earned \$45,000 in income, while Mike earned \$15,000. They expect a \$900 refund. Rachel wants to protect her portion of the refund. What should she do?

- A. Nothing—she is responsible for the entire debt
- B. File IRS Form 8379 with their federal return only
- C. File Michigan Form 743 with their state return
- D. Amend the return after the debt is applied

Practice Scenario

Mike and Rachel are married and file a joint 2025 Michigan return. Mike owes \$1,200 in past-due child support. Rachel has no debts and earned \$45,000 in income, while Mike earned \$15,000. They expect a \$900 refund. Rachel wants to protect her portion of the refund. What should she do?

- A. Nothing—she is responsible for the entire debt
- B. File IRS Form 8379 with their federal return only
- C. File Michigan Form 743 with their state return
- D. Amend the return after the debt is applied

 **Explanation:** Michigan Form 743 allows a non-obligated spouse to protect their portion of a refund from being applied to the other spouse's debts.

Practice Scenario


Tanya and Robert file a joint return. Robert owes \$2,500 in child support from before their marriage. Tanya filed IRS Form 8379 for their federal return. What will happen automatically after the state return is filed?

- A. Nothing—Tanya must file another form
- B. They will receive a bill for the full debt
- C. Michigan Treasury will send them Form 743
- D. The refund will be split 50/50 by default

Practice Scenario

Tanya and Robert file a joint return. Robert owes \$2,500 in child support from before their marriage. Tanya filed IRS Form 8379 for their federal return. What will happen automatically after the state return is filed?

- A. Nothing—Tanya must file another form
- B. They will receive a bill for the full debt
- C. Michigan Treasury will send them Form 743**
- D. The refund will be split 50/50 by default

 **Explanation:** If Form 8379 is filed federally, the Michigan Department of Treasury typically sends Form 743 automatically to help allocate state refunds fairly.

Practice Scenario

Which of the following statements is TRUE regarding Form 743?

- A. It replaces the need to file an amended return
- B. It can be completed using a generic version from the internet
- C. It may be used to allocate exemptions based on income
- D. It is used by the IRS for injured spouse claims

Practice Scenario

Which of the following statements is TRUE regarding Form 743?

- A. It replaces the need to file an amended return
- B. It can be completed using a generic version from the internet
- C. It may be used to allocate exemptions based on income
- D. It is used by the IRS for injured spouse claims

👉 **Explanation:** Exemptions (such as dependents) must be prorated between spouses based on their share of federal AGI.

Practice Scenario


Anna and James are married and file jointly. Anna earned all the income; James had no income. They own their home jointly. How will the homestead property tax credit be applied?

- A. Anna gets 100% of the credit
- B. James is not eligible for the credit
- C. The credit is divided equally
- D. The credit is applied to debts automatically

Practice Scenario

Anna and James are married and file jointly. Anna earned all the income; James had no income. They own their home jointly. How will the homestead property tax credit be applied?

- A. Anna gets 100% of the credit
- B. James is not eligible for the credit
- C. The credit is divided equally
- D. The credit is applied to debts automatically

 **Explanation:** If the home is jointly owned, the homestead property tax credit is split 50/50, regardless of income.

Practice Scenario


Emily and John file jointly. Emily earned \$40,000 and John earned \$20,000. Emily has one dependent from a previous marriage. How should the dependent exemption be handled on Form 743?

- A. Emily claims 100% since it's her child
- B. John gets 100% due to lower income
- C. The exemption is split 50/50
- D. The exemption is prorated based on income ratio

Practice Scenario

Emily and John file jointly. Emily earned \$40,000 and John earned \$20,000. Emily has one dependent from a previous marriage. How should the dependent exemption be handled on Form 743?

- A. Emily claims 100% since it's her child
- B. John gets 100% due to lower income
- C. The exemption is split 50/50
- D. The exemption is prorated based on income ratio

 **Explanation:** Dependent exemptions are prorated even if the child only belongs to one spouse. In this case, 67% would go to Emily and 33% to John.

End of Exemptions

Take a few moments with your table and discuss any questions you may have regarding this topic.