Michigan Tax Law

Filing Basics

Michigan Filing

School District

- The Michigan tax return requires a school district code. This is done through the TaxSlayer software with the entry of the **School District Name (School district tab in the AAS Resources can be used to look this up)**
- A complete list of school districts is in the MI-1040 Instructions book
- **The school district can be different than the name of the city in which the taxpayer lived**
  - **Always ask the taxpayer what school district they lived in on December 31st of the tax year**
    (E.g., there are six different school districts that serve the City of Warren)

Michigan Filing

State Campaign Fund

- Similar to the Federal Election Campaign Fund, the taxpayer (and/or spouse, if filing jointly) can choose to have $3 of their taxes go to this fund
- Funds are only disbursed to candidates for governor, regardless of political party, who agree to limit campaign spending and meet the campaign fund requirements
- The amount of tax due or refund amount **will not change** by choosing to contribute to the State Campaign Fund

Michigan Filing

Residency

- Most of our clients are full-time Michigan residents.
- Part-year residents and taxpayers with income from outside of Michigan should be referred to the site coordinator.

Michigan Filing Requirement

- Taxpayers Must File a Michigan Return if:
  - AGI is greater than their personal exemption allowance,
  - They owe tax, or
  - They are due a refund.
- An individual should file a Michigan return if they were a Michigan resident all or part of the year and filed a federal return
- A nonresident is required to file a Michigan return if all or part of their income was earned in Michigan or was from Michigan sources

Michigan Filing Requirement

- People who **SHOULD** file that do not have a Michigan filing requirement
  - Anyone who may be eligible for the Homestead Property Tax Credit or the Home Heating Credit
    - Paid property taxes or rent for their primary home
    - Paid any heating costs (including those whose heat is included in their rent or in someone else's name) and are low-income (110% of Federal Poverty Line or below)
    - If no taxable income on federal return, enter $1 in Other Income in federal section and enter explanation, "IN ORDER TO E-FILE."
  - Had any Michigan or city income taxes withheld on any paycheck

Filing Status

- Michigan has three **filing statuses:**
    - **Single**
    - **Married Filing Jointly (MFJ)**
    - **Married Filing Separately (MFS)**
- Taxpayers filing their federal return as **Head of Household** or **Qualifying Surviving Spouse,** must file the Michigan return as **Single**
- Taxpayers filing a federal return as **MFJ** must file Michigan as **MFJ**
- Taxpayers filing federal returns as **MFS** can file Michigan as **MFJ** or **MFS**, at their option

Dependents

The Michigan definition of a **dependent** is identical to that of the federal law.

- Unlike federal tax law however, a taxpayer who *can* be claimed as a dependent by someone else gets a limited Michigan personal exemption allowance.
- We typically see this with college students who are working but still being claimed by their parents.

Deceased Taxpayers

- A personal representative for the estate of a taxpayer who died in 2024 (or 2025 before filing a 2024 return) must file if the taxpayer owes tax or is due a refund.
- A full-year exemption is allowed for a deceased taxpayer on the 2024 MI-1040.
- Use the decedent's name and Social Security number and the personal representatives address.
- If the taxpayer died after December 31, 2024, enter the date of death in the "Deceased Taxpayer" box on page 2 on the 2024 MI-1040.

Deceased Taxpayers

- The surviving spouse is considered married for the year in which the deceased spouse died and may file a joint return for that year.
  - Write their name and the decedent's name and both Social Security numbers on the MI-1040.
- Write "DECD" after the decedent's last name.
  - TaxSlayer will do this automatically if the taxpayer is marked as deceased.
- The decedent's income must be reported.
- In the deceased's signature line, write "Filing as surviving spouse."
- If the taxpayer died after December 31, 2024, enter the date of death in the "Deceased Taxpayer" box on page 2 of the MI-1040.

Deceased Taxpayers

- If filing as a personal representative or claimant and they are claiming a refund for a single deceased taxpayer, U.S. Form 1310 or Michigan Claim for Refund Due a Deceased Taxpayer (MI-1310) must be included.
    - Form must also be included if filing as a personal representative or claimant of a deceased taxpayer(s) for a jointly filed return
- For a single deceased taxpayer: Enter the decedent's name in the Filer's Name lines and the representative's or claimant's name, title, and address in the Home Address line.
- For a jointly filed return: Enter the name(s) of the deceased persons(s) in the Filer's and/or Spouse's Name lines and the representative's or claimant's name, title, and address in the Home Address line.

Exemptions

Exemptions on the Michigan Return

- Personal and dependent exemptions
- Special exemptions – Claimed for taxpayer (and/or spouse, if filing jointly) and dependents who are:
  - Deaf,
  - Blind,
  - Hemiplegic, paraplegic, quadriplegic, or
  - Totally and permanently disabled
- Qualified disabled veteran exemption – Claimed for each qualifying individual on the tax return (taxpayer, spouse, and/or dependent)
- Stillbirth exemption

Special Exemptions – Definitions (continued)

Totally and permanently disabled means disabled as defined under Social Security Guidelines 42 USC 4106

- Unable to engage in any substantial gainful activity because of a physical or mental impairment (See IRS Publication 17 for definition of substantial gainful activity)
- A qualified physician must certify that the condition has lasted or can be expected to last continuously for 12 months or more, or that the condition can be expected to result in death

Support for totally and permanently disabled exemption is the receipt of any of the following types of income		
1. Social Security Disability benefits (SSDI)	2. Supplemental Security Income (SSI), if under age 65	3. Veterans' Administration (VA) disability retirement payments
Note: A taxpayer who does not receive any of the above income may be required to furnish a physician's statement to certify total and permanent disability.		

Totally and Permanently Disabled

The exemption for totally and permanently disabled cannot be claimed for a taxpayer, spouse, or dependent if the individual is age 66 by the designated date for the filing year.

Tax Year	Date
2024	**April 30, 2024** (Exemption may **not** be claimed if date of birth is ON or BEFORE April 30, 1958.)
2023	**June 30, 2023** (Exemption may ***not*** be claimed if date of birth is ON or BEFORE June 30, 1957.)
2022	**August 31, 2022** (Exemption may ***not*** be claimed if date of birth is ON or BEFORE August 31,1956.)
2021	**October 31, 2021** (Exemption may ***not*** be claimed if date of birth is ON or BEFORE October 31,1955.)
2020 and Prior	**December 31** of the tax year

Qualified Disabled Veteran and Stillbirth

Qualified Disabled Veteran

An individual must be a veteran of the active military, naval, marine, coast guard, or air service who received an honorable or general discharge and has a disability incurred or aggravated in the line of duty.

- May be claimed in addition to the taxpayer's other exemptions
- May not be claimed on more than one tax return

If a taxpayer qualifies for a special exemption and qualified disabled veteran exemption, they can claim both.

Stillbirth Exemption

For a parent of a stillborn delivered during the tax year who has been issued a Certificate of Stillbirth from the Michigan Department of Health and Human Services (MDHHS)

- Taxpayer must include a copy of the certificate with the tax return

2024 Exemption Amounts

	2024	
Personal Exemption	**$5,600**	
Special Exemptions (Deaf, blind, hemiplegic, paraplegic, quadraplegic, or totally and permanently disabled)	**$3,300**	
Qualified Disabled Veteran	**$500**	
Stillbirth Exemption	**$5,600**	

Part-Year and Nonresident Exemptions

- The exemption allowance for a part-year resident or a nonresident is prorated based on the taxpayer's Michigan income subject to tax divided by total AGI.
- For a couple filing a joint return, if one spouse is a full-year resident and the other is a part-year resident or nonresident, the full-year resident is entitled to one full exemption.
    - The part-year resident or nonresident must prorate the exemption by the ratio of their Michigan income subject to tax to their AGI from all sources.

Michigan Exemptions - Final Notes

- It's **important** to claim each exemption to which the taxpayer is entitled
    - Claiming an exemption(s) may increase any tax refund and decrease any tax due, and
    - May increase the amount of the homestead property tax credit and/or home heating credit
- Only one special exemption may be claimed per person as it applies to the taxpayer, their spouse and their dependents
- If an individual qualifies for a special exemption and qualified disabled veteran exemption, both exemptions may be claimed
- If a dependent files a return, the taxpayer or the dependent, but not both, may claim the dependent's special exemption or qualified disabled veteran exemption

Income, Additions and Subtractions

Tax

In order to calculate the tax amount, we need to first determine taxable income.

- Michigan has a tax rate of 4.25% for tax year 2024. The taxable income multiplied by this rate will determine the amount of Tax. Just like Federal, tax is lowered by withholdings and credits.

10.	**Adjusted Gross Income** from your U.S. Forms *1040* or *1040NR* (see instructions)	10.	00
11.	Additions from Schedule 1, line 9. **Include Schedule 1**	11.	00
12.	**Total.** Add lines 10 and 11	12.	00
13.	Subtractions from Schedule 1, line 29. **Include Schedule 1**	13.	00
14.	**Income subject to tax.** Subtract line 13 from line 12. If line 13 is greater than line 12, enter "0"	14.	00
15.	**Exemption allowance.** Enter amount from line 9f or Schedule NR, line 19	15.	00
16.	**Taxable income.** Subtract line 15 from line 14. If line 15 is greater than line 14, enter "0"	16.	00
17.	**Tax.** Multiply line 16 by 4.25% (0.0425)	17.	00

AGI from Federal 1040
+ Additions from Schedule 1
- Subtractions from Schedule 1
= Income Subject to Tax

Income Subject to Tax
- Exemption allowance
= Taxable Income

Taxable Income
x 4.25%
= Tax

Use Tax

- Every state that has a sales tax has a companion tax for purchases made outside that state by catalog, telephone, or Internet.
  - In Michigan, that companion tax is called “use tax,” but might be described as a remote sales tax because it is a 6 percent tax owed on purchases made outside of Michigan.
- Use tax is due on catalog, telephone, or Internet purchases made from out-of-state sellers as well as purchases while traveling in foreign countries when the items are to be brought into Michigan.
  - Use tax must be paid on the total price (including shipping and handling charges).
  - Many Internet retailers charge tax on sales to Michigan residents.
- Taxpayers should review their records to determine if the retailer charged tax at the time of sale.
- If the Michigan tax was paid at 6 percent, no additional tax would be due. If you paid at least 6 percent to another state on your purchase, you do not owe use tax to Michigan. If you paid less than 6 percent, you owe the difference.
- Use Worksheet 1 to calculate your use tax and enter the amount of use tax due on MI-1040, line 23.

Income

Adjusted Gross Income:

- Michigan starts with the federal Adjusted Gross Income (AGI) and then make Additions and Subtractions to AGI to determine Income Subject to Tax.

Additions to AGI:

- Most additions carry over from other entries made previously on the tax return. The most common additions we see are:
    - The deduction for self-employment tax taken on the federal 1040

Subtractions

Subtractions from AGI:

Most subtractions carry over from other entries made previously on the tax return.

Some subtractions we see are:

- Social Security benefits that were taxable on the federal return
- Income from U.S. Government bonds
- Military pay taxable on the federal return
- Retirement & Pension Benefits Subtraction
- Interest, dividends, and capital gains for taxpayers born before 1946, up to certain limits
- Miscellaneous subtractions: the amount used to determine the credit for elderly or totally and permanently disabled from the federal return.

Pension Subtraction

Pension Benefits Subtraction

The following retirement and pension benefits are **always** subtracted:

- U.S. Military Pensions
- Michigan National Guard Pensions
- Railroad Retirement Benefits
- Rollovers not included in the Federal Adjusted Gross Income (AGI)

Some retirement account distributions are eligible for a subtraction from AGI, making them not subject to Michigan tax.

- Subtraction eligibility is based on the type of distribution (codes), taxpayer's age, taxpayer's situation and type of pension.

Pension Benefits Subtraction

- A subtraction is allowed on the Michigan return for qualifying distributions from retirement plans.
- Retirement plans include private and public employer plans, and individual plans such as IRA's.
  - Private pension plans include employer plans and individual plans such as IRAs and senior citizen annuities (such as from Ford or GM)
  - Public pension plans include benefits received from federal, state, or municipal governments, military, and railroad pensions (such as police, firefighters, teachers, or postal workers)

Tax Treatment

Step 1: Verify Qualified Distribution Requirements

Step 2: Choose What Works Best

- **Option 1:** Tier Structure Subtraction
- **Option 2:** Qualified Fire, Police, and Corrections Retiree Subtraction
- **Option 3:** Phase-In Subtraction

Tax Treatment – Step 1

Step 1: Verify Qualified Distribution Requirements

- Primary requirement for a Michigan retirement subtraction:
    - The taxpayer must retire under the provisions of a retirement plan. Employer plans and individual plans each have specific rules for receiving pension distributions which also must be adhered to for a retirement distribution to qualify for the subtraction.
- These include most payments that are reported on Form 1099-R
    - Use the distribution code in Box 7 to determine whether a retirement and/or pension benefits qualifies as a subtraction.

Tax Treatment – Step 1

What Distributions Do Not Qualify for a Subtraction?

- Under Michigan law, deferred compensation is taxable. These distributions include:
  - All distributions from 457 plans
  - Distributions from 401(k) or 403(b) plans sourced to employee contributions and the earnings from those contributions if they were not matched by the employer
  - Early distributions under the terms of the retirement plan are always taxable

Tax Treatment – Step 1

Intake/Interview:

- Part of the interview with a client that has received a 1099-R should involve the following:
  - Ask if their distribution is from a deferred compensation plan. If yes, it doesn't qualify for a subtraction.
  - Ask if they made contributions to the pension or retirement plan that were not matched by the employer. If yes, more information is needed to determine the portion of the distribution that can be subtracted.
- Once it's been established that the pension or retirement benefit is eligible for a retirement subtraction, then use the 1099-R distribution code to determine if it's a qualified distribution.

Distribution Codes	
Form 1099-R, Box 7 Distribution Code	**Is the retirement and/or pension benefits eligible for subtraction?**
Code 1 – Early distribution, no known exception	No
Code 2 – Early distribution, exception applies	No, unless: Part of a series of mainly equal periodic payments made for the life of the employee or the joint lives of the employee and their beneficiary; Early retirement under the terms of the plan
Code 3 – Disability	Yes
Code 4 – Death	Yes, for surviving spouse only and only if the decedent would have also qualified for a normal distribution under Distribution Code 7 at the time of death
Code 7 – Normal Distribution	Yes
Codes 5, 6, 8 and 9 – Out of Scope	

Tax Treatment – Step 2

Step 2. Choose What Works Best

- **Option 1:** Tier Structure Subtraction
- **Option 2:** Qualified Fire, Police, and Corrections Retiree Subtraction
- **Option 3:** Phase-In Subtraction

Option 1: Tier Structure Subtraction

- If retiree receives a qualified pension distribution, the allowable pension subtraction is calculated based on date of birth of the taxpayer (for single/married filing separate returns) or the oldest spouse (for married filing a joint return)
- Retirees are divided into three tiers:
  - Tier 1 – Taxpayers Born Before 1946
  - Tier 2 – Taxpayers Born between 1946 and 1952
  - Tier 3 – Taxpayer Born after 1952

Option 1: Tier Structure Subtraction – Tier 1

- **<u>TIER 1 – Taxpayers Born Before 1946:</u>** Retirees may subtract:
  - All qualifying pension benefits received from federal or Michigan public sources. Public pensions income from other states is limited to the private retirement maximums. (Some pensions from other states may not have to be limited; see the instructions.)
  - Qualifying private and retirement benefits subject to the private pension limit (adjusted by inflation each year)
    - The private pension limit is reduced by any deduction on the return for military pay and retirement benefits from the U.S. Armed Forces, Michigan National Guard, and Railroad Retirement Board.

Option 1: Tier Structure Subtraction – Tier 2

- **<u>TIER 2 – Taxpayers Born Between 1946 and 1952:</u>**
  - Generally, taxpayers in Tier 2 are not eligible for a pension subtraction (See exception for some surviving spouses on next slide.)
  - After reaching age 67 (on or before December 31 of the tax year), individuals are eligible to subtract the Michigan Standard Deduction against all income. (For tax years 2018 and before, see instructions for taxpayers who have not reached age 67.)
    - Standard deduction is $20,000 (single/MFS) / $40,000 (MFJ)
    - Standard deduction is reduced by any deduction on the return for military pay and retirement benefits from the U.S. Armed Forces, Michigan National Guard, and Railroad Retirement Board.

Option 1: Tier Structure Subtraction – Tier 2

- **TIER 2 – Taxpayers Born Between 1946 and 1952 (cont.):**
  - SSA Exempt Employment – Retirees with benefits from employment with a government agency that was not covered by the federal Social Security Administration (SSA) are entitled to a greater standard deduction. (See next slides on SSA Exempt Employment.)
  - Surviving Spouse – A surviving spouse born after 1945 who has reached the age of 67, has not remarried, and claimed a subtraction for retirement and pension benefits on a return jointly filed with the decedent in the year the spouse died,
    - May elect to take the retirement and pension benefits subtraction based on the older deceased spouse's year of birth subject to the limits available for a single filer instead of the standard deduction.

SSA Exempt Employment

- SSA exempt employment is not covered by the federal Social Security Administration, which means the worker did not pay Social Security taxes and is not eligible for Social Security benefits based on that employment.
- Almost all employment is covered by the federal SSA.
- The most common instances of retirement and pension benefits from employment that is not covered by Social Security are:
    - Police and firefighter retirees,
    - Some federal retirees covered under the Civil Service Retirement System and hired prior to 1984, and
    - A small number of other state and local government retirees.
- Federal retirees hired since 1984 and those covered by the Federal Employees' Retirement System are covered under the SSA.

SSA Exempt Employment (cont.)

- Form CSA 1099R and Form CSF 1099R from the Office of Personnel Management
  - Always ask taxpayers with these forms if they paid Social Security taxes (taxes were withheld) when they were employed by the government agency.
- Police and firefighter retirees should also be asked if they paid Social Security taxes while working.

Option 1: Tier Structure Subtraction – Tier 3

- **TIER 3 – Taxpayers Born After 1952:**
  - Most taxpayers born after 1952 are not eligible for a pension subtraction. (See exception for certain surviving spouses on a subsequent slide.)
  - After reaching age 67 (on or before December 31 of the tax year), individuals are entitled to subtract the Michigan Standard Deduction against all income.
    - Standard deduction is $20,000 (single/MFS) / $40,000 (MFJ)
    - Standard deduction is reduced by:
      - The personal exemption amount,
      - Social Security benefits included in AGI, and
      - Any deduction on the return for military pay and retirement benefits from the U.S. Armed Forces, Michigan National Guard, and Railroad Retirement Board.

Option 1: Tier Structure Subtraction – Tier 3

- **<u>TIER 3 – Taxpayers Born After 1952 (cont.):</u>**
  - <u>SSA Exempt Employment</u> – For retirees with benefits from employment with a government agency that was not covered by the federal Social Security Administration (SSA):
    - If recipient has reached age 62 but has not reached the age of 67 – entitled to a retirement subtraction.
    - If recipient has reached age 62 but has not reached the age of 67 and retired as of January 1, 2013 – entitled to a greater retirement subtraction.
    - If recipient has reached the age of 67 and retired as of January 1, 2013 – entitled to a greater Standard Deduction.

See previous slides for information on SSA Exempt Employment.

Option 1: Tier Structure Subtraction – Tier 3

- **<u>TIER 3 – Taxpayers Born After 1952 (cont.):</u>**
  - <u>Surviving Spouse</u> – A surviving spouse born after 1945 who has:
    - Reached the age of 67,
    - Has not remarried, and
    - Claimed a subtraction for retirement and pension benefits on a return jointly filed with the decedent in the year the spouse died,

    May elect to take the retirement and pension benefits subtraction based on the older deceased spouse's year of birth subject to the limits available for a single filer instead of the standard deduction.

Tax Treatment – Step 2, Option 2

Option 2: Qualified Fire, Police, and Corrections Retiree Subtraction

- Certain fire, police, and corrections retirees may fully deduct, to the extent a qualifying distribution is included in AGI, retirement benefits received from Michigan service as a:
  - Public police or fire department employee,
  - State police trooper or state police sergeant, or
  - Corrections officer employed by a county sheriff in a county jail, work camp, or other facility maintained by a county that houses adult prisoners.

Tax Treatment – Step 2, Option 2 (cont.)

Option 2: Qualified Fire, Police, and Corrections Retiree Subtraction

- There is no limitation to the amount of a public pension deductible for these retirees
- Any public retirement deduction claimed reduces the maximum private retirement deduction
- Retirement benefits received from the Federal Employees Retirement System (FERS) that are attributable exclusively to service as a federal law enforcement officer generally qualify for the unlimited public retirement income deduction
- State law enforcement officers and employees retired from states other than Michigan are not eligible for the full deduction of public retirement income

Tax Treatment – Step 2, Option 2 (cont.)

Option 2: Qualified Fire, Police, and Corrections Retiree Subtraction

- The surviving spouse of a qualified fire, police, or corrections retiree is allowed a subtraction under this option if he or she filed a joint return for the tax year in which the retiree died and claimed a retirement subtraction for that year
- Because the subtraction is 100% of the retirement benefit, the age of the older spouse is not a factor in computing the subtraction.

Tax Treatment – Step 2, Option 3

Option 3: Phase-In Subtraction

- The maximum retirement subtraction described in the table below is the private pension limit established for Tier 1 retirees. It is derived based on date of birth of the taxpayer (for single/MFS returns) or the oldest spouse (for MFJ return)

Tax Year	Retiree Date of Birth	Phase-In Subtraction
2023	Jan. 1, 1946 - Dec. 31, 1958	Up to 25%
2024	Jan. 1, 1946 - Dec. 31, 1962	Up to 50%
2025	Jan. 1, 1946 - Dec. 31, 1966	Up to 75%
2026	N/A	Up to 100%

Tax Treatment – Step 2, Option 3 (cont.)

Option 3: Phase-In Subtraction

- A taxpayer electing the Phase-In Method must reduce the maximum amount allowed for that deduction by the sum of all retirement benefits included in AGI from the following sources:
  - Military pay
  - Military pension or retirement benefits
  - Railroad retirement benefits
  - Michigan National Guard benefits
  - Federal and Michigan public retirement benefits

The taxpayer would then apply the applicable phaseout percentage depending on the tax year.

Tax Treatment – Step 2, Option 3 (cont.)

Option 3: Phase-In Subtraction

- Example: Taxpayer Eve

  Note: For tax year 2023, the private pension limit is $61,518 for single/MFS filers and $123,036 for MFJ filers

  - Eve, born in 1958, had a military pension distribution of $50,000 and a private retirement distribution of $12,000 in 2023. To calculate her private pension limit, she must subtract the $50,000 military pension from the maximum private maximum allowed ($61,518), leaving a private retirement maximum of $11,518.
    - Eve may deduct her full military pension of $50,000,
    - And 25% of $11,518 or $2,880 of her $12,000 private pension.

Tax Treatment – Step 2, Option 3 (cont.)

Option 3: Phase-In Subtraction

- Surviving Spouse – If a subtraction using the Phase-In Method is claimed on a joint return in the year a spouse died and the surviving spouse has not yet remarried, the surviving spouse may use the Phase-In Method based on the older deceased spouse's year of birth and subject to the limitations applicable to a single filer

Recap of Surviving Spouse Rules

For Option 1 (Tier Structure Subtraction) and Option 3 (Phase-In Subtraction):

A surviving spouse may compute a retirement subtraction based on the date of birth of the older, deceased spouse if all of the following are true:

- A joint return was filed for the tax year in which the spouse died.
- A retirement subtraction was claimed for the year in which the spouse died.
- The surviving spouse has not since remarried.
- For Option 1, Tier 2 and Tier 3 beneficiaries, the surviving spouse has to have reached age 67 in addition to the requirements listed above.

For Option 1, Tier 2 and Tier 3 beneficiaries – If the above requirements are met, the surviving spouse may elect to take the greater of the Michigan standard deduction or the allowable retirement subtraction based on the date of birth of the older, deceased spouse.

For Option 2 (Qualified Fire, Police, and Corrections Retiree Subtraction):

A surviving spouse is allowed to subtract benefits earned by the deceased spouse if:

- He or she filed a joint return for the tax year in which the retiree died, and
- Claimed a retirement subtraction for that year.

Debts Owed to the State

Debts Owed to the State

- By law, any money owed to the State and other state agencies must be deducted from refunds or credits before they are issued.
  - Debts include money owed for past-due taxes, student loans, child support due to the Friend of the Court, an IRS levy, money due to a state agency, a court-ordered garnishment, or other court orders.
- Taxpayers who are married filing jointly may receive an *Income Allocation for Non-Obligated Spouse (Form 743)* after the return is filed.
  - Completing and filing this form may limit the portion of the refund that can be applied to a debt.
  - If Treasury applies all or part of a refund to any of these debts, a letter of explanation will be received.
  - This form will generally be received in the mail if a Federal Form 8379 was filed.
- If a taxpayer brings in a 743, get your site coordinator involved.

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

Do not adjust any figures printed on the form by the Michigan Department of Treasury. An amended Michigan return should be filed only if an error was made on the original return that was not corrected by the Michigan Department of Treasury.

- Divide each spouse's share of income by the joint 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.
- Jointly earned income is generally allocated equally to each spouse.
- 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 had a zero or negative amount, that amount should be used to reduce the taxable income of the other spouse.
- A credit for contributions may be shared equally or allocated to the spouse making the contribution.
- Earned Income Credit is prorated based on each spouse's income percentage ratio

Injured Spouse, Michigan Form 743

Claiming Exemptions on 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)
- Exemption allowance for dependents must be prorated based on the ratio of each spouse's income to federal adjusted gross income.
- Dependents must be prorated, even if they belong to one spouse from a previous marriage.
- If one spouse had a zero or negative adjusted gross income, or negative taxable income, the other spouse should claim the exemptions.

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.

Injured Spouse, Michigan Form 743

When the primary filer is deceased:

- The spouse automatically becomes the primary filer.
- If the decedent owes the debt, the spouse will still receive a refund – providing the spouse is not liable and Form 743, Income Allocation for Non-Obligated Spouse, is completed.
- A copy of the death certificate should be attached when Form 743 is filed.

Reciprocal States

Reciprocal States

- Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin have reciprocal agreements with Michigan.
  - Michigan residents pay only Michigan income tax on their salaries and wages earned in any of these states.
- A Michigan resident may file a withholding form with an employer in a reciprocal state to claim exemption from that state's income tax withholding.
- The out-of-state income may make Michigan individual income tax estimated payments necessary.

Reciprocal States

- Residents of reciprocal states working in Michigan do not have to pay Michigan tax on salaries or wages earned in Michigan but do have to pay Michigan tax on business income earned from business activity in Michigan.
- A resident of a reciprocal state who claims a refund of Michigan withholding tax must file a Schedule NR along with an MI-1040.

AccountingAidSociety

Refunds

- Taxpayers can choose to:
  - Apply any portion of their overpayment to the following tax year as a credit forward
  - Receive all or part of their refund using direct deposit to any financial account that has a Routing Transit Number, such as a checking or savings account, or a prepaid debit card
    - Encourage taxpayers to use direct deposit; direct deposit refunds are received faster than checks (usually within 10 to 21 days) and eliminate the possibility of a check being lost or stolen.
    - Direct deposit is more convenient for the taxpayer and saves tax dollars because it costs less to process.
    - Direct deposit of a taxpayer’s refund is to be made to an account (or accounts) only in the taxpayer’s name.
  - Receive all or part of their refund as a check

Tax Due Returns

- Payments can now be made electronically.
- If the balance due is less than $1, no payment is required, but the return must still be filed.
- If they pay after the due date of the return, penalty and interest for late payment is also due.
  - Penalty accrues monthly at 5 percent of the tax due, and increases by an additional 5 percent per month, or fraction thereof, after the second month, up to a maximum of 25 percent of the tax due (e.g., penalty on a $500 tax due will be $125 if the tax is unpaid for six months).

Estimated Payments

- Estimated income tax payments must be made if a client is expected to owe more than $500 when they file their 2023 MI-1040.
  - This is after crediting the property tax, any other refundable or nonrefundable credits, and amounts they paid through withholding.
- Common income sources which make estimated payments necessary are self-employment income; salary, wages or retirement benefits if enough tax is not withheld; tips, lump-sum payments, unemployment benefits, dividend and interest income; income from the sale of property (capital gains), and business income.
- Estimated payments are due April 18, 2023; June 15, 2023; September 15, 2023; and January 17, 2023.

Estimated Payments

- **Exceptions**:
  - If you expect to owe more than $500, you may not have to make estimated payments if you expect your withholding for the tax year to be at least:
    - 90 percent of your total tax for the tax year, or
    - 100 percent of your total tax for the prior tax year
- **Failure to make payments or underpayment of estimated payments**:
  - If you fail to make required estimated payments, pay late, or underpay in any quarter, Treasury may charge penalty and interest.
  - Penalty is 25 percent of the tax due (with a minimum of $25) for failing to make estimated payments or 10 percent (with a minimum of $10) for failing to pay enough estimated payments or making estimated payments late.
  - Interest is one percent above the prime rate and is computed monthly.