AccountingAidSociety

We use taxes to build relationships.
And relationships to build futures.

# *Tax Masters Series*
# *Session One*

Thursday, October 24, 2024
5:30 p.m. – 8:00 p.m.

Discussion Leaders: Maysaa Rahal, Sam Spolarich, Kathy Holka, Chelsea Vitale

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AccountingAidSociety    We use taxes to build relationships. And relationships to build futures.

## *Tax Masters Series*
## *Session One*

Oakland County Tax Site
22540 Woodward Ave.
Ferndale, MI 48220

Thursday, October 24, 2024
5:30 p.m. – 8:00 p.m.

Discussion Leaders: Maysaa Rahal, Sam Spolarich, Kathy Holka, Chelsea Vitale

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**AGENDA**

| | |
|---|---|
| 5:30 p.m. – 6:00 p.m. | Networking and Introduction |
| 6:00 p.m. – 6:20 p.m. | Site Procedure Refreshers |
| 6:20 p.m. - 6:40 p.m. | Accounting Aid Resources Page |
| 6:40 p.m. - 7:00 p.m. | Retirement & Pension Benefits |
| 7:00 p.m. - 7:45 p.m. | Michigan Pension Subtraction<br>Energy Credits |
| 7:45 p.m. – 8:00 p.m. | Questions and Answers |

Issued under authority of Public Act 281 of 1967, as amended.

# 2023 MICHIGAN Schedule 1 Additions and Subtractions

Include with Form MI-1040. Type or print in blue or black ink. **Attachment 01**

| Filer's First Name | M.I. | Last Name | Filer's Full Social Security No. (Example: 123-45-6789) |
|---|---|---|---|
| | | | — — |

## Additions to Income (all entries must be positive numbers)

| | | |
|---|---|---|
| 1. Gross interest and dividends from obligations issued by states (other than Michigan) or their political subdivisions. | 1. | 00 |
| 2. Deduction for taxes on or measured by income, including self-employment tax, taken on your federal return, and allocated share of tax paid by an electing flow-through entity (see instructions) | 2. | 00 |
| 3. Gains from Michigan column of MI-1040D and MI-4797 | 3. | 00 |
| 4. Losses attributable to other states (see instructions) | 4. | 00 |
| 5. Net loss from federal column of your Michigan MI-1040D or MI-4797 | 5. | 00 |
| 6. Oil, gas, and nonferrous metallic mineral expense. Enter amount from line 20 of Form 5889, *Michigan Report of Oil, Gas, and Nonferrous Metallic Minerals Extraction - Income and Expenses* | 6. | 00 |
| 7. Federal Net Operating Loss deduction included in AGI | 7. | 00 |
| 8. Other (see instructions). Describe: ____________________ | 8. | 00 |
| 9. **Total additions. Add lines 1 through 8. Enter here and on MI-1040, line 11.** | 9. | 00 |

## Subtractions from Income (all entries must be positive numbers)

| | | |
|---|---|---|
| 10. Income from U.S. government bonds and other U.S. obligations included in MI-1040, line 10. Include U.S. *Schedule B* if over $5,000 | 10. | 00 |
| 11. Amount included in MI-1040, line 10, from military retirement benefits due to service in the U.S. Armed Forces or Michigan National Guard, or taxable railroad retirement benefits | 11. | 00 |
| 12. Gains from federal column of Michigan MI-1040D and MI-4797 | 12. | 00 |
| 13. Income attributable to another state. **Explain type and source:**____________ | 13. | 00 |
| 14. Taxable Social Security benefits or military pay (not retirement) included on MI-1040, line 10 | 14. | 00 |
| 15. Income earned while a resident of a Renaissance Zone (see instructions). | 15. | 00 |
| 16. Michigan state and local income tax refunds received in 2023 and included on MI-1040, line 10 including your allocated share of refund received from an electing flow-through entity | 16. | 00 |
| 17. Michigan Education Savings Program, MI 529 Advisor Plan, and Michigan Achieving a Better Life Experience Program. | 17. | 00 |
| 18. Michigan Education Trust | 18. | 00 |
| 19. Oil, gas, and nonferrous metallic minerals income. Enter amount from line 7 of Form 5889, *Michigan Report of Oil, Gas, and Nonferrous Metallic Minerals Extraction - Income and Expenses* | 19. | 00 |
| 20. Resident Tribal Member income exempted under a State/Tribal tax agreement or pursuant to *Revenue Administrative Bulletin 1988-47* | 20. | 00 |
| 21. First-Time Home Buyer Savings Program. Enter amount from line 3 of Form 5792, *Michigan First-Time Home Buyer Savings Program*. **Include Form 5792**. | 21. | 00 |
| 22. MRTMA/marihuana expense subtraction. | 22. | 00 |
| 23. Miscellaneous subtractions (see instructions). **Describe:**____________ | 23. | 00 |



**Continue on page 2.**

# 2023 MICHIGAN Schedule 1 Additions and Subtractions

| Filer's First Name | M.I. | Last Name | Filer's Full Social Security No. (Example: 123-45-6789) |
|---|---|---|---|
| | | | — — |

## Deduction Based on Year of Birth

Complete 24A through 24H if claiming the Michigan Standard Deduction, the retirement benefits deduction or the senior investment income deduction on lines 25, 26, 27, or 28. Check box(es) 24C and/or 24G **only** if you or your spouse received retirement benefits from employment with a governmental agency not covered by the federal Social Security Act (SSA exempt employment). **See instructions before continuing**.

24.

| FILER | | | | SPOUSE | | | |
|---|---|---|---|---|---|---|---|
| **A.** Year of Birth (19xx) | **B.** Age as of 12-31-2023 | **C.** Check if filer received benefits from SSA exempt employment | **D.** Check if filer retired as of 01-01-2013 and born after 1952 | **E.** Year of Birth (19xx) | **F.** Age as of 12-31-2023 | **G.** Check if spouse received benefits from SSA exempt employment | **H.** Check if spouse retired as of 01-01-2013 and born after 1952 |
| | | ☐ | ☐ | | | ☐ | ☐ |

25. **Tier 2 Michigan Standard Deduction.** Complete this line if the older of you or your spouse (if married) was born during the period January 1, 1946 through December 31, 1952, and reached age 67. **Do not complete lines 26, 27 or 28**.......... 25. 00

26. **Tier 3 Michigan Standard Deduction.** Complete this line if the older of you or your spouse (if married) was born during the period January 1, 1953 through January 1, 1957, and reached age 67 on or before December 31, 2023. **Do not complete lines 25, 27 or 28**.......... 26. 00

27. **Retirement benefits.** Enter amount from line 16, 17, 18 or 19 of Form 4884, *Michigan Pension Schedule.* **Include Form 4884**.......... 27. 00

28. Dividend/interest/capital gains deduction for taxpayers **78 years and older**. This deduction is limited to $13,712 on a single return or $27,424 on a joint return, and must be reduced by any deduction for retirement benefits (see instructions).......... 28. 00

☐ Check this box if you are the unremarried surviving spouse claiming a dividend, interest or capital gains deduction for someone born before 1946 who was at least age 65 at the time of death.

29. **Subtotal.** Add lines 10 through 28.......... 29. 00

30. **2023 Michigan NOL Deduction.** Enter amount from line 11 or 12 of Form 5674, *Michigan Net Operating Loss Deduction*. **Include Form 5674**.......... 30. 00

31. **Total Subtractions.** Add lines 29 and 30. Enter here and on MI-1040, line 13.......... 31. 00

**Include with Form MI-1040 and Schedule 1.**

# 2023 MICHIGAN Pension Schedule (Form 4884)

Issued under authority of Public Act 281 of 1967, as amended.

Refer to the instructions and the questionnaire *"Which Section of Form 4884 Should I Complete?"* for additional assistance. **Failure to complete this form in its entirety will result in your pension subtraction being denied.**

Type or print in blue or black ink.

**Attachment 23**

| 1. Filer's First Name | M.I. | Last Name | 2. Filer's Full Social Security No. (Example: 123-45-6789) |
|---|---|---|---|
| If a Joint Return, Spouse's First Name | M.I. | Last Name | 3. Spouse's Full Social Security No. (Example: 123-45-6789) |

## PART 1: FILING INFORMATION

| 4. Primary Filer Year of Birth (ex. 19xx) | 5. If a Joint Return, Spouse Year of Birth (ex. 19xx) |
|---|---|

6a. ☐ Check here if you received qualified retirement benefits earned from service by a fire, police, or county corrections retiree (see instructions to determine if you qualify).

6b. ☐ Check here if you were born after January 1, 1957, were retired as of January 1, 2013, and received retirement benefits from SSA exempt employment.

## PART 2: DECEASED SPOUSE INFORMATION

If you are receiving retirement and pension benefits from a deceased spouse, or are otherwise claiming the retirement and pension benefits subtraction based on your deceased spouse's year of birth, complete lines 7a through 7d.

| 7a. Deceased Spouse Name | 7b. Deceased Spouse Full Social Security No. | 7c. Deceased Spouse Year of Birth (ex. 19xx) |
|---|---|---|

7d. ☐ Check here if your deceased spouse was born after 1952, was retired as of January 1, 2013, and received retirement benefits from SSA exempt employment.

## PART 3: RETIREMENT AND PENSION BENEFITS (see instructions)

**Do not enter Social Security, military or railroad retirement benefits here (see Schedule 1).**

8. Retirement and pension benefits. List all that apply for filer (and spouse if filing jointly) including benefits from a deceased spouse.

| A<br>Enter "X" for **Private or Public** | | B<br>Enter "X" for Deceased Spouse | C<br>Payer FEIN (from 1099-R) (Example: 38-1234567) (see instructions) | D<br>Distribution Code | E<br>Name of Payer | F<br>Pension Amount Included in AGI |
|---|---|---|---|---|---|---|
| | | | | | | 00 |
| | | | | | | 00 |
| | | | | | | 00 |
| | | | | | | 00 |
| | | | | | | 00 |
| | | | | | | 00 |
| | | | | | | 00 |
| | | | | | | 00 |

☐ **Check here and complete the *Michigan Pension Continuation Schedule* (Form 4973) if you have more than eight sources of Retirement and Pension Benefits.**

**Continue on page 2. This form cannot be processed if page 2 is not completed and included.**
**You must also include a completed MI-1040 and Schedule 1 when filing Form 4884.**

Filer's Full Social Security Number (Example: 123-45-6789)

**PART 4: To determine which section below to complete, review the questionnaire: "*Which Section of Form 4884 Should I Complete?*" in the MI-1040 book. Complete only <u>one</u> of the sections below.**

## SECTION A:

9. Enter $61,518 if single or $123,036 if filing jointly .......... 9. 00
10. Enter military retirement benefits due to service in the U.S. Armed Forces or Michigan National Guard, or taxable railroad retirement benefits included in AGI from Schedule 1, line 11 .......... 10. 00
11. Subtotal. Subtract line 10 from line 9. If line 10 is greater than line 9, enter "0" .......... 11. 00
12. Enter total **public** retirement and pension benefits, including public benefits received from a deceased spouse who died prior to 2023 .......... 12. 00
13. Subtotal. Subtract line 12 from line 11. If line 12 is greater than line 11, enter "0" .......... 13. 00
14. Enter total **private** retirement and pension benefits, including private benefits received from a deceased spouse who died prior to 2023 .......... 14. 00
15. Enter the smaller of lines 13 or 14 .......... 15. 00
16. **Total Retirement and Pension Benefits Subtraction.** Add lines 12 and 15. Carry this amount to Schedule 1, line 27 .......... 16. 00

## SECTION B:

17. **Total Retirement and Pension Benefits Subtraction.** Enter total retirement and pension benefits, including benefits received from a deceased spouse who died prior to 2023 (maximum $20,000 if single or $40,000 if filing jointly). If you checked box 24C and/or 24G on Schedule 1 or have military or railroad retirement benefits reported on Schedule 1, line 11, see instructions. Carry this amount to Schedule 1, line 27 .......... 17. 00

## SECTION C:

18. **Total Retirement and Pension Benefits Subtraction.** If you checked box 24C and/or 24G on Schedule 1 and the older of you or your spouse was born after December 31, 1958 but before January 2, 1962, enter retirement and pension benefits you received, up to $15,000 per eligible taxpayer. If you have military or railroad retirement benefits reported on Schedule 1, line 11, see instructions. Carry this amount to Schedule 1, line 27 .......... 18. 00

## SECTION D:

19. **Total Retirement and Pension Benefits Subtraction.** Enter total retirement and pension benefits you received (maximum $15,380 if single or $30,759 if filing jointly). If you have military or railroad retirement benefits reported on Schedule 1, line 11, see instructions. Carry this amount to Schedule 1, line 27 .......... 19. 00

Form **5695**

Department of the Treasury
Internal Revenue Service

# Residential Energy Credits

**Attach to Form 1040, 1040-SR, or 1040-NR.**

**Go to *www.irs.gov/Form5695* for instructions and the latest information.**

OMB No. 1545-0074

2023

Attachment Sequence No. **75**

Name(s) shown on return | **Your social security number**

**Part I** **Residential Clean Energy Credit** (See instructions before completing this part.)

**Note:** Skip lines 1 through 11 if you only have a **credit carryforward from 2022**.

Enter the complete address of the home where you installed the property and/or technology associated with lines 1 through 4 and 5b. For more than one home, see instructions.

| Number and street | Unit no. | City or town | State | ZIP code |
|---|---|---|---|---|
| | | | | |

| | | | |
|---|---|---|---|
| **1** | Qualified solar electric property costs | **1** | |
| **2** | Qualified solar water heating property costs | **2** | |
| **3** | Qualified small wind energy property costs | **3** | |
| **4** | Qualified geothermal heat pump property costs | **4** | |
| **5a** | Qualified battery storage technology. Does the qualified battery storage technology have a capacity of at least 3 kilowatt hours? (See instructions.) If you checked the "No" box, you cannot claim a credit for qualified battery storage technology | **5a** | ☐ **Yes** ☐ **No** |
| **b** | If you checked the "Yes" box, enter the qualified battery technology costs | **5b** | |
| **6a** | Add lines 1 through 5b | **6a** | |
| **b** | Multiply line 6a by 30% (0.30) | **6b** | |
| **7a** | Qualified fuel cell property. Was qualified fuel cell property installed on, or in connection with, your **main home** located in the United States? (See instructions.) | **7a** | ☐ **Yes** ☐ **No** |
| | If you checked the "No" box, you cannot claim a credit for qualified fuel cell property. Skip lines 7b through 11. | | |
| **b** | Enter the complete address of the main home where you installed the fuel cell property. | | |

| Number and street | Unit no. | City or town | State | ZIP code |
|---|---|---|---|---|
| | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **8** | Qualified fuel cell property costs | **8** | | | |
| **9** | Multiply line 8 by 30% (0.30) | **9** | | | |
| **10** | Kilowatt capacity of property on line 8 above . x $1,000 | **10** | | | |
| **11** | Enter the smaller of line 9 or line 10 | | | **11** | |
| **12** | Credit carryforward from 2022. Enter the amount, if any, from your 2022 Form 5695, line 16 | | | **12** | |
| **13** | Add lines 6b, 11, and 12 | | | **13** | |
| **14** | Limitation based on tax liability. Enter the amount from the Residential Clean Energy Credit Limit Worksheet. (See instructions.) | | | **14** | |
| **15** | **Residential clean energy credit.** Enter the smaller of line 13 or line 14. Also include this amount on Schedule 3 (Form 1040), line 5a | | | **15** | |
| **16** | Credit carryforward to 2024. If line 15 is less than line 13, subtract line 15 from line 13 | **16** | | | |

## Part II Energy Efficient Home Improvement Credit

### Section A—Qualified Energy Efficiency Improvements

**17a** Are the qualified energy efficiency improvements installed in or on your main home located in the United States? (See instructions.) . . . **17a** ☐ Yes ☐ No

**b** Are you the original user of the qualified energy efficiency improvements? . . . **17b** ☐ Yes ☐ No

**c** Are the components reasonably expected to remain in use for at least 5 years? . . . **17c** ☐ Yes ☐ No

If you checked the "No" box for line 17a, 17b, or 17c, you cannot claim the energy efficient home improvement credit. Do not complete Part II, Section A.

**d** Enter the complete address of the main home where you made the qualifying improvements.
**Caution:** You can only have one main home at a time. (See instructions.)

| Number and street | Unit no. | City or town | State | ZIP code |
|---|---|---|---|---|
| | | | | |

**e** Were any of these improvements related to the construction of this main home? . . . **17e** ☐ Yes ☐ No

If you checked the "Yes" box, you can only claim the energy efficient home improvement credit for qualifying improvements that were not related to the construction of the home. Do not include expenses related to the construction of your main home, even if the improvements were made after you moved into the home.

**18** Insulation or air sealing material or system.

**a** Enter the cost of insulation material or system (include air sealing material or system) specifically and primarily designed to reduce heat loss or gain of your home that meets the criteria established by the IECC. (See instructions.) . . . **18a**

**b** Multiply line 18a by 30% (0.30). Enter the results. Do **not** enter more than $1,200 . . . **18b**

**19** Exterior doors that meet the applicable Energy Star requirements.

**a** Enter the cost of the most expensive door you bought . . . **19a**

**b** Multiply line 19a by 30% (0.30). Do **not** enter more than $250 . . . **19b**

**c** Enter the cost of all other qualifying exterior doors . . . **19c**

**d** Multiply line 19c by 30% (0.30) . . . **19d**

**e** Add lines 19b and 19d. Do **not** enter more than $500 . . . **19e**

**20** Windows and skylights that meet the Energy Star certification requirements.

**a** Enter the cost of exterior windows and skylights that meet the Energy Star certification requirements. (See instructions.) . . . **20a**

**b** Multiply line 20a by 30% (0.30). Enter the results. Do **not** enter more than $600 . . . **20b**

### Section B—Residential Energy Property Expenditures

**21a** Did you incur costs for qualified energy property installed on or in connection with a home located in the United States? . . . **21a** ☐ Yes ☐ No

**b** Was the qualified energy property originally placed into service by you? . . . **21b** ☐ Yes ☐ No

If you checked the "No" box for line 21a or 21b, you cannot claim the credit for your residential energy property costs. Skip lines 22 through 25 and line 29. Go to line 26.

**c** Enter the complete address of each home where you installed qualified energy property.

| Number and street | Unit no. | City or town | State | ZIP code |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

**22** Residential energy property costs (include labor costs for onsite preparation, assembly, and original installation). (See instructions.)

**a** Enter the cost of central air conditioners . . . **22a**

**b** Multiply line 22a by 30% (0.30). Enter the results. Do **not** enter more than $600 . . . **22b**

**23a** Enter the cost of natural gas, propane, or oil water heaters . . . **23a**

**b** Multiply line 23a by 30% (0.30). Enter the results. Do **not** enter more than $600 . . . **23b**

**24a** Enter the cost of natural gas, propane, or oil furnace or hot water boilers . . . **24a**

**b** Multiply line 24a by 30% (0.30). Enter the results. Do **not** enter more than $600 . . . **24b**

**Section B—Residential Energy Property Expenditures** *(continued)*

| | | | | | |
|---|---|---|---|---|---|
| **25a** | Enter the cost of improvements or replacement of panelboards, subpanelboards, branch circuits, or feeders | **25a** | | | |
| **b** | Multiply line 25a by 30% (0.30). Enter the results. Do **not** enter more than $600 | | | **25b** | |
| **26** | Home energy audits. | | | | |
| **a** | Did you incur costs for a home energy audit that included an inspection of your main home located in the United States and a written report prepared by a certified home energy auditor? (See instructions.) | | | **26a** | ☐ **Yes** ☐ **No** |
| | If you checked the "No" box, you cannot claim the home energy audit credit. Stop. Go to line 27. | | | | |
| **b** | Enter the cost of the home energy audits | **26b** | | | |
| **c** | Multiply line 26b by 30% (0.30). Enter the results. Do **not** enter more than $150 | | | **26c** | |
| **27** | Add lines 18b, 19e, 20b, 22b, 23b, 24b, 25b, and 26c | **27** | | | |
| **28** | Enter the smaller of line 27 or $1,200 | | | **28** | |
| **29** | Heat pumps and heat pump water heaters; biomass stoves and biomass boilers. | | | | |
| **a** | Enter the cost of electric or natural gas heat pumps | **29a** | | | |
| **b** | Enter the cost of electric or natural gas heat pump water heaters | **29b** | | | |
| **c** | Enter the cost of biomass stoves and biomass boilers | **29c** | | | |
| **d** | Add lines 29a, 29b, and 29c | **29d** | | | |
| **e** | Multiply line 29d by 30% (0.30). Enter the results. Do **not** enter more than $2,000 | | | **29e** | |
| **30** | Add lines 28 and 29e | | | **30** | |
| **31** | Limitation based on tax liability. Enter the amount from the Energy Efficient Home Improvement Credit Limit Worksheet. (See instructions.) | | | **31** | |
| **32** | **Energy efficient home improvement credit.** Enter the smaller of line 30 or line 31. Also include this amount on Schedule 3 (Form 1040), line 5b | | | **32** | |

IRS

Important Information for Consumers

# Energy Efficient Home Improvement Credit (25C)

The information below is applicable for calendar year 2024. For more information, please visit **IRS.gov/HomeEnergy**.

## DON'T KNOW WHERE TO START?

Consider a home energy audit. Taxpayers can save 30% (up to $150) on a home energy audit done by a certified auditor. The written report can help you identify cost/energy saving home improvements.

## Did you know you could save money on your utility bills and receive a tax credit for certain energy efficiency home improvements?

The maximum credit amount is **30%** of the cost of an energy efficient qualifying home improvements, up to certain annual limits for each type of improvement. Further details on the limits for specific improvements and categories of improvements can be found in the column to the right. The total annual credit that can be claimed is $3,200.

**Note**: The credit can cover both the purchase and installation costs for heat pumps, energy efficient AC units, furnaces/ boilers, water heaters, biomass stoves/ boilers, and electric panel/circuit board upgrades. For building envelope components (insulation, doors, windows, skylights), only the purchase can be covered. Requesting an itemized invoice or receipt from your contractor/installer can be helpful.

### Total Annual Credit Limits

$2,000 (for heat pumps, heat pump water heaters, biomass stoves/boilers)

- $2,000: heat pumps
- $2,000: heat pump water heaters
- $2,000: biomass stoves/boilers

$1,200 (for all other home improvements)

- $600: efficient AC units
- $600: efficient furnaces/boilers
- $600: efficient water heaters
- $600: electric panel/circuit upgrades
- $1,200: insulation/air sealing
- $500: exterior doors ($250 each)
- $600: exterior windows/skylights
- $150: home energy audits

$3,200 (overall, with no lifetime limit)

Insulation, exterior doors, exterior windows, and skylights must be installed at taxpayer's principal residence, which must be owned by taxpayer. Other home improvements may be installed at any residence used by the taxpayer, and the taxpayer may be a tenant. Landlords, who are not also residents of the dwelling, may not claim this credit.

**Note**: The Energy Efficient Home Improvement Credit cannot be applied to new construction.

### EXAMPLE

| | |
|---|---|
| Heat Pump Water Heater | $2,250 |
| Labor/Installation | $750 |
| **Total Cost** | **$3,000** |
| **Tax Credit (30% of cost)** | **$900** |
| **Cost Less Credit** | **$2,100** |

### To claim the credit, taxpayers must file IRS Form 5695

Individual taxpayers can claim the credit regardless of income level, but a taxpayer must owe taxes in order to make a claim, and the amount claimed is limited to a taxpayer's tax liability. Any unused credit may not be carried over.

### To qualify, improvements must meet the following standards

- Heat pumps, heat pump systems, water heaters, efficient AC units, and efficient furnaces/ boilers must meet Consortium for Energy Efficiency (CEE) highest efficiency tier, not including any advanced tier.
- Biomass stoves/boilers must have a thermal efficiency rating of at least 75% (measured by the higher heating value of the fuel).
- Exterior doors must meet the applicable ENERGY STAR standard and exterior windows and skylights must meet the ENERGY STAR Most Efficient standard. Learn more about qualifying products and potential rebates for your area at EnergyStar.gov/windows.
- Insulation must meet International Energy Conservation Code standards.
- Panelboards must be installed according to National Electric Code and have a load capacity of at least 200 amps. Must enable installation and use of other building envelope components or energy property.

**Find out more about Home Energy Tax Credits and the Inflation Reduction Act at IRS.gov/HomeEnergy.**

Publication 5967 (5-2024) Catalog Number 94948H Department of the Treasury **Internal Revenue Service** www.irs.gov

**WELCOME TO** AccountingAidSociety

Tax Masters Series
Session One:
Tax Law Refreshers

October 24, 2024
5:30 p.m. to 8 p.m.


Instructors: Chelsea Vitale, Maysaa Rahal, Kathy Holka, Samantha Spolarich

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Tax Masters – Session 1 – October 24, 2024
AGENDA

Welcome and Introductions

Site Procedure Refreshers

Accounting Aid Resources Page

Retirement and Pension Benefits

Michigan Pension Subtraction

Energy Credits

Questions

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Accounting AidSociety SINCE 1972

We use taxes to build relationships. And relationships to build futures.

Welcome and Introductions

## Meet Your Presenters

- Matt Hetherwick, Chief Program Officer, VITA & LITC
- Maysaa Rahal, VITA Program Manager
- Kathy Holka, Senior Tax Policy Analyst
- Samantha Spolarich, Assistant VITA Program Manager
- Chelsea Vitale, VITA Volunteer

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## Virtual Q&A Sessions

- Thursday, November 7, 2024 | 6:00PM
- Thursday, November 21, 2024 | 6:00PM
- Tuesday, December 3, 2024 | 6:00PM
- Thursday, December 12, 2024 | 6:00PM
- Thursday, January 2, 2025 | 6:00PM
- Thursday, January 9, 2025 | 6:00PM

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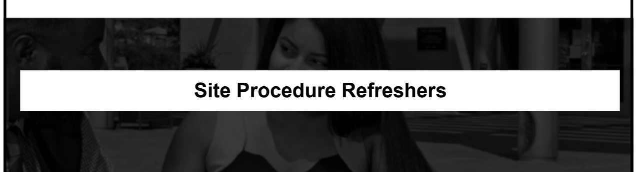


AccountingAidSociety

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## Income Limit

- **Income limit for tax returns is $67,000**
  - Please do NOT turn someone away because of income without contacting a manager or site coordinator first.
    - Site coordinators can approve returns up to a certain amount above our income limit
    - May have income that is a one time occurrence that puts them over the income limit, such as an early withdrawal from retirement or lottery winnings

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## Name Tags

- All staff and volunteers MUST wear name tags at all times while at the tax sites.
  - Blue = Basic
  - Red = Advanced
- Should receive an updated name tag either at training or first volunteer session

8

## Appointments

- ALL staff and volunteers (staff site coordinators included) will have appointments in the system for every time slot.
  - Fluctuates between sites and volunteer strength.
- At staff led sites, volunteers must get clients first.
  - Unless there are no clients, volunteers must get a client before staff members do.

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## Quality Reviews

- Quality reviews must be done of ALL returns at the tax sites.
- Volunteers that are able to quality review, may quality review as well.
- Quality review sheet in TaxSlayer should be printed and reviewed by client to ensure basic information and bank info are entered into system correctly and the Michigan intake should be initialed verifying client checked all information
  - Can either then be given back to client or shredded.
- TaxSlayer E-file section should be reviewed by reviewers to ensure custom questions are answered and custom credits are entered correctly.

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## Return Finalization

- Taxpayer review and acknowledgement ***after*** the quality review is completed – an IRS tax law-certified volunteer must briefly discuss the filing status, exemptions, income, deductions, adjusted gross income, credits, taxes, payments, and the refund or balance due with the taxpayer.
  - If the taxpayer has any questions, concerns, or requires additional clarification about the return, the volunteer must assist the taxpayer.
- Volunteers must remind taxpayers that when they sign the return (either by signing Form 8879, IRS e-file Signature Authorization or signing Form 1040, U.S. Individual Income Tax Return for paper returns), they are stating under penalty of perjury that they are responsible for the accuracy of the information shown on their return.
- Client letter must be completed in full entirety and stapled to the tax return.

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## Client Envelopes

- If multiple year tax returns are completed, each tax return and corresponding documents should be separated into different envelopes that are labeled with the client's name(s), tax year and tax site they visited.
- All tax documents must be returned to the client after tax return is complete and signed for e-filing.
- If a client leaves any sort of document at the tax site, please do not shred the documents. Let the site coordinator know and they will handle getting them back to the client.
- The Client Envelope (Pub 730) has minor revisions this year. Envelopes from prior years should be used first before using the new envelopes. (Note: Revision date is shown at the bottom of the envelope. The IRS has not shared the revised content.)

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## TaxSlayer Accounts

- Tax returns are not to be completed in the Site Coordinator account, only the individual site user accounts
- Only the site coordinator and assistant coordinators can have TaxSlayer account passwords.

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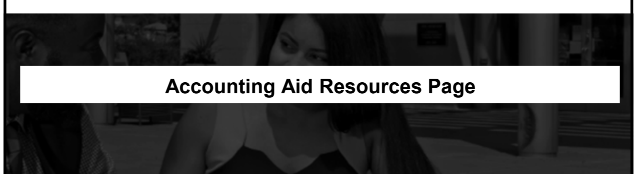


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## Accounting Aid Resources Page

- **Federal**
  - **IRS Publications**
  - **Tools**
  - **Advanced Topics**
- **State of Michigan**
  - **Michigan Tax Tools**
  - **Homestead Property Tax Credit**
  - **Home Heating Credit**
- **City**
  - **Taxing Cities**
  - **Detroit**
- **Client Assistance Tools**
  - **IRS Account - I.D Me (Coming Soon)**
  - **Helpful Links**
  - **CFR Cards**
  - **Estimated Tax Vouchers**
  - **Where's My Refund**
- **Site Manual**

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## Accounting Aid Resources Page

- Site Manual
    - Site Coordinator Updates
    - Quality Site Requirement Alerts (QSRAs)
    - Volunteer Tax Alerts (VTAs)
    - Site Procedures
    - CERVIS
    - Printer Troubleshooting
    - Tax Site Documents

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## Accounting Aid Resources Page

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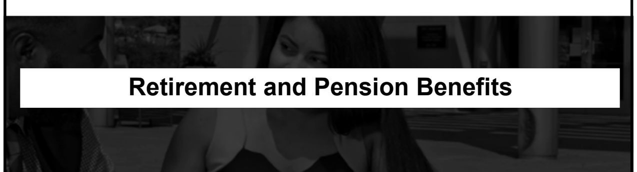


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## Retirement Income (Form 1099-R)

- Retirement income can include Social Security benefits as well as benefits from annuities, retirement or profit sharing plans, insurance contracts, IRAs, etc.

  Taxpayers receive the following forms reporting their retirement income:
  - **Form 1099-R** – Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
  - **Form CSA 1099-R** – Statement of Annuity Paid (civil service retirement payments)
  - **Form CSF 1099-R** – Statement of Survivor Annuity Paid
  - **Form RRB 1099-R** – Annuities or Pensions by the Railroad Retirement Board
  - If Form 1099-R is for an IRA-type distribution, it will be indicated in Box 7.

  Retirement income may be fully or partially taxable

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## Taxable Portion of Retirement Income

**How do I find the taxable portion of pensions and annuities?**

- Fully Taxable Pensions and Annuities
  - In general, pension or annuity payments are fully taxable, if the following are true:
    - Taxpayers did not pay any part of the cost of their pensions or annuities
    - Employers did not withhold part of the cost from the taxpayer's pay while they worked
    - Employers withheld part of the cost from the taxpayer's before-tax pay while they worked

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## Taxable Portion of Retirement Income (cont.)

**How do I find the taxable portion of pensions and annuities?**

- Partially Taxable Pensions and Annuities
  - There are two methods used to figure the taxable portion of each pension or annuity payment, the General Rule and the Simplified Method
    - Unless an exception applies, retirees must use the **Simplified Method** for annuity payments from a qualified plan. A qualified plan is established by an employer to provide retirement benefits for employees and their beneficiaries.
    - If a taxpayer tells you they have been using the **General Rule** to figure the taxable portion for past years, the return is **out of scope**.

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## Early Distributions

- An early distribution is a withdrawal from a retirement fund by a taxpayer who is under age 59½.
- Early distributions can be subject to an additional 10% tax.
- The additional tax applies to the taxable portion of the distribution or payment.
- Certain early distributions are not subject to the early distribution tax.
  - When the distribution code on Form 1099-R is 1, the taxpayer will not be subject to the additional 10% tax if an exception applies.
  - If the distribution code is 2, 3, or 4, the taxpayer does not have to pay the additional tax.

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## Detroit Police Officers and Firefighters

Important Note for **Duty Disability Retirees** with Form 1099-R from the Policemen and Firemen Retirement System of the City of Detroit:

- Form 1099-R with:
  - No taxable amount in Box 2 (or "$0")
  - A non-zero amount in Box 1
- Action Required in TaxSlayer:
  - Leave Box 2 blank.
  - Include the Box 1 amount in the Total Household Resources calculation.

**Caution: Omitting this amount may result in:

- Receiving a letter of denial of credits
- Incorrect calculations

Ensure accurate reporting to avoid delays or issues with the tax credits.

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## Cities & Pension Taxability – Detroit

**City of Detroit –** Qualification for a retirement and pension benefits subtraction is based on the Form 1099-R distribution code. Age of the taxpayer is not a factor:

- Code 1 - Early distribution,no known exception
  - Do not subtract on the Detroit return; always taxable
- Code 2 - Early distribution, exception applies
  - Not eligible for subtraction on Detroit return, unless: Part of 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
  - Always eligible for subtraction, even if reported as wages.

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## Cities & Pension Taxability – Detroit

**City of Detroit** (continued)

- Code 4 - Death
  - Eligible for subtraction for surviving spouse only and if the decedent would have also qualified for a normal distribution under Distribution Code 7 at the time of death.
    No for all other beneficiaries.
    No, if paid as a death benefit payment made by an employer but not made as part of a pension, profit sharing, or retirement plan.

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## Cities & Pension Taxability – Detroit

**City of Detroit** (continued)

- Code 7 - Normal distribution
  - Eligible for subtraction for:
    - Normal distribution from a plan,
    - Distribution from a traditional IRA if the participant is at least 59½,
    - Roth conversion if the participant is at least age 59½,
    - Distribution from a life insurance, annuity, or endowment contract must be 65 and 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
  - Exception: May may not subtract distributions from a plan that:
    - allows the employee to set the amount of compensation to be deferred
    - does not prescribe the retirement age or years of service

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## Cities & Pension Taxability – Other Cities

- **Hamtramck, Highland Park and Pontiac**
  - Social security, pensions and annuities (including disability pensions), Railroad Retirement Act benefits, annuities, IRA and 401k distributions after age 59 ½, and rollover of amounts from IRAs to ROTH IRAs are **not** taxable.
  - Code 1: Early distribution always taxable.

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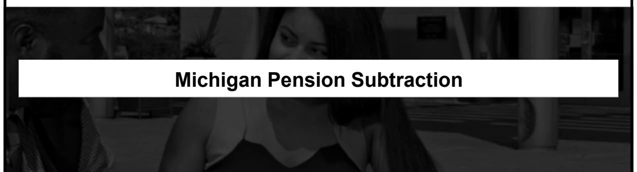

## Michigan Pension Subtraction

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## Michigan Tax Treatment of Retirement Distributions

| Tax Years | Tax Treatment of Retirement Distributions |
|---|---|
| **Pre-2012** | Taxpayers could subtract most qualified retirement distributions with some dollar limitations |
| **2012 – 2022 Public Act 38** | Tier Structure Method – Subtraction was limited for certain recipients based on the retiree's date of birth for a single filer or the date of birth of the older spouse for joint filers, separating tax filers into three age-based tiers |
| **2023 and Beyond Public Act 4** | Public Act 4 phases out (rolls back) the 3-tier system of limitations and restrictions placed on the retirement subtraction since 2012 |

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## Lowering MI Costs Plan (Public Act 4 of 2023)

The Act (signed into law on March 7, 2023, and took effect on February 13, 2024):

- Provides taxpayers with more options to choose the best taxing situation for their retirement benefits beginning with tax year 2023
  - Tier Structure Subtraction
  - Qualified Fire, Police, and Corrections Retiree Subtraction
  - Phase-In Subtraction
- Has a 4-year phase-in period that will essentially restore the pension subtraction for most taxpayers beginning in 2026

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## Retirement and Pension Benefits

- **What are Retirement and Pension Benefits?**
  - Retirement and pension benefits include most income that is reported on Form 1099-R for federal tax purposes.
  - Pension/retirement plans include private and public employer plans, and individual accounts governed by various sections of the internal revenue code (IRC)
  - Each type of plan has rules for receiving distributions.
- **Taxable or Nontaxable?**
  - For a pension distribution to qualify for the Michigan subtraction, it must comply with the specific distribution rules under its plan.
  - To determine the allowable retirement or pension subtraction, we must consider
    - (1) If the retirement income is considered a qualified distribution, and
    - (2) What the tax treatment options are for a given tax year.

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## Types of Plans and Do They Qualify for the Pension Subtraction

- **Employer Plans**
  - Created by private companies and by public entities
  - The employer plan establishes rules that govern retirement age and the pension formula for their employees
  - For both public and private employer plans:
    - The pension benefits must be paid from a pension trust, and
    - the payment must be made to either the employee or the surviving spouse.
    - Payments made to the surviving spouse are only deductible if the employee qualified for the subtraction at the time of death.

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## Types of Plans and Do They Qualify for the Pension Subtraction

- **Individual Plans**
  - Individuals may have pension accounts created under various sections of the internal revenue code (IRC) that may or may not be part of an employer plan.
  - To qualify for the Michigan pension subtraction, the distributions must meet the requirements set forth in the relevant section of the IRC.

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## Types of Plans and Do They Qualify for the Pension Subtraction

- **Individual Retirement Account (IRA) IRC 408 Distribution Requirements**
  - 59½ or older; or
  - Disability; or
  - Death - distribution after the death of the participan may only be subtracted by a surviving spouse if the distributions qualified as a subtraction for the participant at the time of death; or
  - Series of equal periodic payments made for life.

Note: Distributions from a Roth IRA are not included in AGI and are not subtractable on the Michigan return.

– If all or part of a Roth IRA distribution is taxable, the return is out of scope for VITA.

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## Types of Plans and Do They Qualify for the Pension Subtraction

- **Senior Citizen Annuity IRC 72 Distribution Requirements**
  - Received from a retirement annuity policy, and
  - for life, and
  - to a senior citizen.

For purposes of the retirement annuity subtraction, a senior citizen is defined as an "individual …who is 65 years of age or older at the close of the tax year. The term also includes the un-remarried surviving spouse of a person who was 65 years of age or older at the time of death."

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## Types of Plans and Do They Qualify for the Pension Subtraction

- **401(k) and 403(b) Plans**
  - 401(k) plans are primarily offered by for-profit companies
  - 403(b) plans are offered by public schools and 501(c)(3) tax-exempt organizations
  - If all the contributions are made by the employee or if the employee makes contributions that were **not** matched by the employer, then any distribution attributable to those employee contributions will not qualify for the pension subtraction.
- **457 Plans**
  - Retirement savings plan for employees of state and local governments, as well as some nonprofit organizations
  - Pension subtraction not allowed

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## Types of Plans and Do They Qualify for the Pension Subtraction

- **Keogh or HR 10 Plans for the Self-Employed**
  - Distributions are subject to the same general rules for other retirement plans, usually not made until a participant separates from service, the plan is discontinued, or the participant reaches age 59½.

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## Types of Plans and Do They Qualify for the Pension Subtraction

- **Other Distributions** – The following distributions **do not qualify** for the pension subtraction:
  - Deferred compensation plans that allow the employee to set the amount of compensation to be deferred and do not prescribe retirement age or years of service, e.g., 401(k), 403(b), and 457 plans if all the contributions are made by the employee or if the employee makes contributions that do not elicit contributions by the employer.
  - Commercial Annuity Policies (unless the payments are made for life to a senior citizen).

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## Types of Plans and Do They Qualify for the Pension Subtraction

- **Other Distributions** – The following distributions **do not qualify** for the pension subtraction (continued):
  - Amounts received before the recipient could retire under the plan provisions, including amounts paid on separation, withdrawal, or discontinuance of the plan
  - Payments received as an incentive to retire early unless the distributions are from a pension trust.
  - Eligible distributions received by a beneficiary of the decedent except for the surviving spouse.
  - Distributions that are sourced to rollovers from plans or contributions that do not qualify (i.e., IRA distributions that are sourced to rollovers from a 457 plan).

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## Tax Treatment

- Regardless of date of birth, the following benefits are deductible to the extent included in AGI:
  - Military compensation
  - Military retirement benefits due to service in the U.S. Armed Forces or Michigan National Guard
  - Railroad retirement benefits
- Any subtraction on the MI-1040 for the above-listed income reduces the maximum allowed amounts for private retirement benefits.

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## Tax Treatment
## SSA Exempt Employment

Additional rules for pension distributions from SSA exempt employment.

The next two slides explain SSA exempt employment. The specific rules are covered on subsequent slides.

- SSA exempt employment is not covered by the federal Social Security Administration – 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.

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## Tax Treatment
## SSA Exempt Employment (continued)

- Federal retirees hired since 1984 and those covered by the Federal Employees' Retirement System are covered under the SSA.
- 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.

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## Where are Pension and Retirement Benefits Subtracted on the Michigan Return?

Retirement and pension benefits are subtracted on Schedule 1, Additions and Subtractions (and flow to line 13 of the MI-1040):

- Military compensation included in AGI:
  - Schedule 1, line 14 (taxable Social Security benefits also subtracted on line 14)
- Military retirement benefits and taxable railroad retirement benefits:
  - Schedule 1, line 10
- Other retirement benefits:
  - Schedule 1, line 25
  - Amounts on line 25 flow from Michigan Form 4884, Pension Schedule

Note: All line references are to 2023 tax forms

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## TaxSlayer Entries

- Entries are needed in the software in order for the subtraction to be reported on the return and on the correct line of the tax form(s)
- Where in TaxSlayer the entry is made will depend on the type of pension or retirement benefit:
  - Military retirement benefits due to service in the U.S. Armed Forces or Michigan National Guard
  - Railroad retirement Tier 1 benefits included in AGI (RRB-1099, blue form, the Social Security equivalent benefit)
  - Other retirement benefits
- Detaild instruction for the subtractions are included in our Step by Step guide
- Note: Railroad retirement Tier 2 benefits (RRB-1099-R, green form) are automatically subtracted on the Michigan tax return

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## 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

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## 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 they know what type of plan they were enrolled in – 401(k), 403(b), 457, senior citizen annuity, a plan for the self-employed.
  - Ask if their distribution is from a deferred compensation plan and, if yes, did they make any contributions to the 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.

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## Tax Treatment – Step 1

**Intake/Interview:**

- 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.
  - Be aware that some code 7, normal distributions, do not qualify for subtraction. These include:
    - 401(k) and 403(b) plan distributions attributable to employee contributions that were not matched by the employer
    - 457 plan distributions
    - Distributions sourced to rollovers from plans that do not qualify for the pension subtraction

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**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;<br>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.<br>**No for all other beneficiaries**.<br>**No**, if paid as a death benefit payment made by an employer but not made as part of a pension, profit sharing or retirement plan. |

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| Distribution Codes | |
|---|---|
| **Form 1099-R, Box 7 Distribution Code** | **Is the retirement and/or pension benefits eligible for subtraction?** |
| **Code 6** – Section1035 exchange. The exchange of life insurance (**In scope beginning tax year 2024.**) | **No** |
| **Code 7** – Normal Distribution,<br>• Normal distribution from a plan,<br>• Distribution from a traditional IRA, if the participant is at least 59½,<br>• Roth conversion if the participant is at least age 59½,<br>• Distribution from a life insurance, annuity, or endowment contract must be 65 and 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. | **Yes**<br>**Exception:** You may not subtract distributions from a plan that:<br>• Allows the employee to set the amount of compensation to be deferred<br>• Does not prescribe the retirement age or years of service |

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| Distribution Codes | |
|---|---|
| **Form 1099-R, Box 7 Distribution Code** | **Is the retirement and/or pension benefits eligible for subtraction?** |
| **Code 5** – Prohibited transaction (**Out of scope**) | **No** |
| **Code 8** – Excess contribution plus earnings/excess deferrals (and/or earnings) taxable in 2022 (**Out of scope**) | **No** |
| **Code 9** – Cost of current life insurance protection (**Out of scope**) | **No** |

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## 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

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## 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

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## Option 1: Tier Structure Subtraction – Tier 1

- **TIER 1 – Taxpayers Born Before 1946:** Retirees may subtract:
  - Public Benefits – 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.)
  - Private Benefits – 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.

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## Option 1: Tier Structure Subtraction – Tier 2

- **TIER 2 – Taxpayers Born Between 1946 and 1952:**
  - Generally, taxpayers in Tier 2 are not eligible for a pension subtraction (See exception for some surviving spouses on a subsequent 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.

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## 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.
      - $35,000 for single filers, $55,000 for joint filers, and $70,000 for joint filers if both spouses worked for an “uncovered” agency.
      - Not eligible for this deduction to the extent Military income and Railroad/Michigan National Guard pension exemptions are claimed.

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## 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.

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## Option 1: Tier Structure Subtraction – Tier 3

- **TIER 3 – Taxpayers Born After 1952 (cont.):**
  - SSA Exempt Employment – 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 (up to $15,000 for single or joint filer / $30,000 for joint filers if both spouses worked for an “uncovered” agency.)
    - 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 (up to $35,000 for single filer, $55,000 for joint filers, or $70,000 for joint filers if both spouses worked for an “uncovered” agency.)
    - If recipient has reached the age of 67 and retired as of January 1, 2013 – entitled to a greater Standard Deduction ($35,000 for single filer, $55,000 for joint filers, or $70,000 for joint filers if both spouses worked for an “uncovered” agency.)

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## Option 1: Tier Structure Subtraction

- **Surviving Spouse Rules** – Special rules apply for determining the tier limitation applicable to a taxpayer whose spouse has passed away.
  - The 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
  - A surviving spouse born after 1945, who has reached the age of 67, and the above three rules apply, may elect to claim the larger of either:
    - The Michigan standard deduction, or
    - The retirement subtraction based on the older, deceased spouse's year of birth
  - If a surviving spouse did not claim a retirement subtraction on a return jointly filed with the decedent in the year in which the spouse died or the surviving spouse has remarried, then claim the retirement subtraction based on the year of birth of the filer (or older spouse if remarried)

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## 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.

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## 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

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## 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.

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## 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% |

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## 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.

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## 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.

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## 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

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## Michigan Pension Subtraction Final Notes

- Make sure to enter Form 1099-R information only for qualified distributions
- Based on the entries made, TaxSlayer will produce the Michigan return with the pension subtraction option that works best for the taxpayer
- To verify if the taxpayer is entitled to claim a pension subtraction or a Michigan standard deduction, and if it's reported properly on the return, answer the questions in the "Which Section of Form 4884 Should I Complete" in the MI-1040 instructions booklet (on page 22 of the 2023 MI-1040 instructions).

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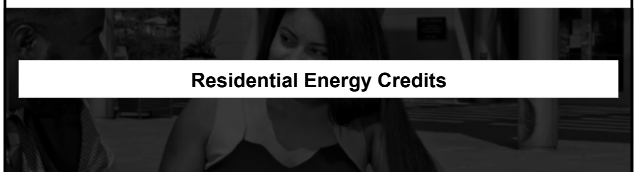

## Residential Energy Credits

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## Residential Energy Credits

- **Two types** of Residential Energy Credits available for taxpayers who purchase qualified energy efficient improvements for their home:
  - **Residential Clean Energy Credit**
    - Claimed on Form 5695, Residential Energy Credits, Part I
    - Out of scope for VITA
  - **Energy Efficient Home Improvement Credit**
    - Claimed on Form 5695, Residential Energy Credits, Part II
    - In Scope
- Note: For tax years prior to 2022, both credits had different names and there were different rules for claiming the credits.

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## Inflation Reduction Act of 2022

- The Inflation Reduction Act of 2022 (IRA) amended the credits for residential energy property and energy efficient home improvements
  - Residential Clean Energy Credit (out of scope)
    - The IRA extended the credit through 2034, modified the applicable credit percentage rates for 2033 and 2034, and added battery storage technology as an eligible expenditure
    - The credit applies for property placed in service in 2022 through 2034

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## Inflation Reduction Act of 2022

- Energy Efficient Home Improvement Credit
  - The IRA increased the credit for tax years after 2022
  - Beginning with tax year 2023, the amount of the credit is 30% of amounts paid for certain qualified expenditures
  - Beginning January 1, 2023, there is no longer a $500 lifetime credit limit (or $200 limit for windows)
  - There are limits on the annual credit allowed and on the amount of credit for certain types of expenditures
  - The credit is allowed for qualifying property placed in service in tax years 2023 through 2032

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## Who Can Claim the Credits?

- Who can claim the residential energy credits?
  - Homeowners who improve their primary residence will find the most opportunities to claim a credit for qualifying expenses
  - Renters may also be able to claim credits, as well as owners of second homes used as residences (more information later in the presentation)
  - The credits are never available for improvements made to homes that aren't used as a residence

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## Residential Energy Credits

- Both of the residential energy credits are **nonrefundable credits**
- The credit amounts from Form 5695 are reported on Form 1040, Schedule 3, Additional Credits and Payments, lines 5a and 5b
- The amount of the credit a taxpayer may claim is a percentage of the total expenses **in the year of installation**
- Form 13614-C, Intake/Interview & Quality Review Sheet
  - The taxpayer is asked about purchasing and installing energy-efficient home items on page 3 of the intake sheet (for filing season 2025)
- **Advanced certification** required

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## Residential Energy Credits (cont.)

- Improvements must meet the clean energy or energy efficient requirements
- To qualify, they must be new systems and materials, not used
- Home must be located in the United States
- Timing of the credit – Credit must be claimed for the tax year when the improvement is installed, not purchased
- When calculating the credit, taxpayers may need to subtract subsidies, rebates, or other financial incentives from qualified property expenses because they're considered a purchase price adjustment
- Adjusted basis of the home is reduced by the amount of any credit allowed

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## Residential Energy Credits – Prior Years

- For improvements installed in **2022 or earlier**, see previous versions of Form 5695 and the corresponding instructions
- Be mindful of the $500 lifetime credit limit (and $200 limit for windows) for the Energy Efficient Home Improvement Credit for prior years
  - The credit has been in place since 2006; therefore, it is likely that many taxpayers would have reached the $500 credit limit (and/or $200 limit for windows) in any given tax year through 12/31/2022
- This presentation primarily addresses the residential energy credit rules for the Energy Efficient Home Improvement Credit

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## Residential Clean Energy Credit

- The first type of Residential Energy Credit, the **Residential Clean Energy Credit**, is:
  - Out of scope for VITA. Claimed on Part I of Form 5695, Residential Energy Credits.
- The following expenses may qualify for the credit if the requirements are met:
  - Solar electric property costs (solar panels)
  - Solar water heating property costs (solar water heaters)
  - Small wind energy property costs (wind turbines)
  - Geothermal heat pump property costs
  - Battery storage technology costs
  - Fuel cell property costs

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## Residential Clean Energy Credit (cont.)

- May claim 30% on the sum of the cost for the first five items plus 30% of fuel cell property costs (reduced percentages in tax years 2033 & 2034)
- No annual maximum or lifetime limit
- May claim the credit for qualifying expenses incurred for either an existing home or a newly constructed home
- Unused amounts can be carried forward to reduce tax liability in future tax years

> - The information provided for the Residential Clean Energy Credit is for awareness only
> - During the intake/interview, taxpayers with expenses for this credit should be referred to a professional tax preparer

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## Energy Efficient Home Improvement Credit

- The second type of Residential Energy Credit, the **Energy Efficient Home Improvement Credit**, is:
  - In scope for VITA and is claimed on Part II of Form 5695, Residential Energy Credits.
- Advanced certification required
- Through December 31, 2022, the credit is a $500 lifetime credit
- For tax years after 2022, there is no longer a lifetime credit limit
- May claim the credit only for qualifying expenses incurred for an existing home or for an addition to or renovation of an existing home
- Unused credit amounts cannot be carried forward to future tax years

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### Energy Efficient Home Improvement Credit These Expenses May Qualify if they Meet the Requirements

| Type of Expense (Form 5695, Part II, Section A) | Credit Available for 2022 | Credit Available for 2023-2032 |
|---|---|---|
| **Building envelope components:** | ● 10% of total cost for all components (Up to a lifetime maximum of $500 for all energy efficient home improvements, $200 for windows) | (Note: Cannot include labor costs for building envelope components) |
| ● Insulation or air sealing material or system | | ● 30% of cost |
| ● Exterior doors | | ● 30% of cost, up to $250 per door and $500 total |
| ● Metal and asphalt roofs | | ● N/A |
| ● Exterior windows and skylights | | ● 30% of cost, up to $600 |
| Component must reasonably be expected to last for at least 5 years; do not include labor | | |

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**Energy Efficient Home Improvement Credit**
**These Expenses May Qualify if they Meet the Requirements**

| Type of Expense (Form 5695, Part II, Section B) | Credit Available for 2022 | Credit Available for 2023-2032 |
|---|---|---|
| **Residential energy property:**<br>● Central air conditioners<br>● Natural gas, propane, or oil water heaters | ● $300 total for central air, water heaters, & heat pumps | ● 30% of costs, including labor, up to $600 for each item |
| ● Natural gas, propane, or oil furnaces and hot water boilers | ● $150<br>(Up to $500 lifetime limit for all energy efficient home improvements) | |
| ● Improvements/replacement of panelboards, sub-panelboards, branch circuits, or feeders | ● N/A | |

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**Energy Efficient Home Improvement Credit**
**These Expenses May Qualify if they Meet the Requirements**

| Type of Expense (Form 5695, Part II, Section B) | Credit Available for 2022 | Credit Available for 2023-2032 |
|---|---|---|
| **Home energy audits** | ● N/A | ● 30% of cost, up to $150 |

- A home energy audit of taxpayer's main home may qualify for a credit
- In order to qualify, the home energy audit must:
  - ❑ Include a written report and inspection that identifies the most significant and cost-effective energy efficiency improvements with respect to the home, including an estimate of the energy and cost savings with respect to such improvement, and
  - ❑ Be conducted by a home energy auditor
- Starting in 2024, additional requirements must be met

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**Energy Efficient Home Improvement Credit**
**These Expenses May Qualify if they Meet the Requirements**

| Type of Expense (Form 5695, Part II, Section B) | Credit Available for 2022 | Credit Available for 2023-2032 |
|---|---|---|
| **Home energy audits (cont.)** | ● N/A | ● 30% of cost, up to $150 |

- Starting in 2024, the following additional requirements must be met:
  - ❑ Inspection must be conducted by a qualified home energy auditor, defined as an individual who is certified by one of the qualified certification Programs listed on the Department of Energy certification programs for the Energy Efficient Home Improvement Credit (Section 25C) at the time of the audit, or under the supervision of a qualified home energy auditor;
  - ❑ The qualified home energy auditor's name and relevant employer identification number (EIN) or other type of appropriate taxpayer identifying number, if the auditor does not have an EIN;
  - ❑ An attestation that the qualified home energy auditor is certified by a qualified certification program; and
  - ❑ The name of such qualified certification program.

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### Energy Efficient Home Improvement Credit
### These Expenses May Qualify if they Meet the Requirements

| Type of Expense (Form 5695, Part II, Section B) | Credit Available for 2022 | Credit Available for 2023-2032 |
|---|---|---|
| Heat pumps and biomass stoves and biomass boilers:<br>● Electric or natural gas heat pump water heaters<br>● Electric or natural gas heat pumps<br>● Biomass stoves and biomass boilers* | ● $300 total for central air, water heaters, & heat pumps<br>● 30% of cost | ● 30% of cost, up to $2,000 per year |

* For tax year 2022, biomass stoves and boilers are treated as a Residential Clean Energy Credit with no lifetime maximum

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### Energy Efficient Home Improvement Credit
### Annual Maximum Credits

- For building envelope components, residential energy property, and home energy audits, the aggregate annual maximum is $1,200.
- For heat pumps, heat pump water heaters, biomass stoves, and biomass boilers, the aggregate annual maximum is $2,000.
- Thus, the maximum total yearly energy efficient home improvement credit amount may be up to $3,200 for tax years 2023 through 2032.

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## Energy Efficiency Requirements

- To qualify, home improvements must meet energy efficiency standards
- They must be new systems and materials, not used
- IRS provides guidance on what property qualifies for the energy credits
  - See the Form 5695 instructions, or
  - www.irs.gov/credits-deductions/frequently-asked-questions-about-energy-efficient-home-improvements-and-residential-clean-energy-property-credits-energy-efficiency-requirements
- Taxpayers generally can rely on manufacturers' certifications that their property qualifies

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## Energy Efficiency Requirements (cont.)

- Not all ENERGY STAR products qualify for a tax credit. Since 2016, exterior doors, exterior windows, and skylights are only eligible for the energy efficient home improvement credit if they meet or exceed the specific requirements of the version 6.0 Energy Star program
- Manufacturers must certify that their products meet new standards and they must provide a written statement to the taxpayer, such as with the product packaging or in a printable format on the manufacturer's Website
- Taxpayers should keep a copy of the manufacturer's certification statement and receipts with their other important tax records
  - **Due to the technical nature of these credits, we must see documentation**

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## Energy Efficiency Requirements (cont.)

- Recent update:
  - On 10/24/2024, the Department of Treasury and the IRS issued Revenue Procedure 2024-31 and proposed regulations to provide guidance for the Energy Efficient Home Improvement Credit.
  - The revenue procedure provides procedures and requirements that a manufacturer of specified property must follow to be treated as a qualified manufacturer (QM).
  - **Beginning in 2025, for each item of specified property placed in service, no credit will be allowed unless the item was produced by a QM and the taxpayer includes the PIN for the item on the taxpayer's tax return.**

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## Energy Efficient Home Improvement Credit Labor Costs

- Building envelope components – A taxpayer **may not** include labor costs for installing building envelope components (insulation, exterior doors, exterior windows and skylights)
  - If a taxpayer pays a fixed price for an energy efficient building envelope component, the taxpayer must make a reasonable allocation between the qualifying cost of the property and the non qualifying labor cost of the installation
- Residential energy property – A taxpayer **may** include labor costs for the onsite preparation, assembly, or original installation of residential energy property (central air conditioners; natural gas, propane, or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers; electric or natural gas heat pumps; electric or natural gas heat pump water heaters; biomass stoves or biomass boilers; or improvements to panelboards, sub-panelboards, branch circuits, or feeders)

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## Second Home

- Second Homes
  - The credits are available only for certain improvements made to second homes
    - See the instructions for each type of credit for which improvements qualify
  - The credits are never available when the improvements are made to homes not used as a residence by the taxpayer
  - For example, landlords can never use these credits for improvements made to any homes they rent out but do not use as a residence themselves

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## Home Rented by the Taxpayer

- If a taxpayer is renting a home as their principal residence and makes eligible improvements, a tax credit may be available to such tenant for:
  - Residential energy property expenditures (central air conditioners; natural gas, propane, or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers; electric or natural gas heat pumps; electric or natural gas heat pump water heaters; biomass stoves or biomass boilers; or improvements to panelboards, sub-panelboards, branch circuits, or feeders)
  - Home energy audits
- Renters cannot claim the credit for installing building envelope components (insulation, exterior doors, exterior windows and skylights)

**Note:** For tax years prior to 2023, rentals do not qualify

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## Challenging Issues

In addition to ensuring energy efficiency standards are met, there are other issues that could pose a challenge to determining the credit. The receipt/invoice from the installer may not have the following information:

- Purchase date vs installation date
  - The credit is taken in the year the improvement or energy product was installed, not purchased
  - For end-of-year purchases, be sure to find out the installation date
- Labor costs
  - Labor costs cannot be claimed for building envelope components
  - If labor costs are included in the total paid for the improvement, taxpayer must ask the installer to break out labor costs or the taxpayer must make a reasonable allocation between cost of the product and labor for installation

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## Roofing Expenditures

| Type of Credit and Type of Expense | Credit Available for 2022 | Credit Available for 2023-2032 |
|---|---|---|
| Energy Efficient Home Improvement Credit<br>● Metal and asphalt roofs that meet requirements | ● 10% of cost | ● N/A |
| Residential Clean Energy Credit<br>● In general, traditional roofing materials and structural components do not qualify for the Residential Clean Energy Property Credit because they primarily serve a roofing or structural function<br>● However, some solar roofing tiles and solar roofing shingles may qualify for the credit for 2022 and for 2023–2032. Out of scope for VITA. | | |

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## TaxSlayer Entry

- Entry in TaxSlayer
  - Federal Section > Deductions > Credits Menu > Residential Energy Credit Form 5695
  - or Keyword: ENER

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## Residential Energy Credits

**Please consult the reference materials for complete instruction:**

- Instructions for Form 5695, Residential Energy Credits
- Publication 5797, Home Energy Tax Credits
- Home Energy Tax Credit
- Frequently asked questions about energy efficient home improvements and residential clean energy property credits - Energy efficient home improvement credit: Qualifying expenditures and credit amount
- Energy efficient standards can be found at: www.irs.gov/credits-deductions/frequently-asked-questions-about-energy-efficient-home-improvements-and-residential-clean-energy-property-credits-energy-efficiency-requirements

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## Residential Energy Credits

**Documents available for the consumer/taxpayer:**

- Publication 5967, Energy Efficient Home Improvement Credit (25C)
- Publication 5976, How to claim an Energy Efficient Home Improvement tax credit RESIDENTIAL ENERGY PROPERTY
- Publication 5978, How to claim an Energy Efficient Home Improvement tax credit HOME ENERGY AUDIT
- Publication 5979, How to claim an Energy Efficient Home Improvement tax credit EXTERIOR DOORS, WINDOWS, SKYLIGHTS AND INSULATION MATERIALS

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## Tax Masters Session 2

**Date:** Thursday, November 14, 2024

**Time:** 5:30PM – 8:00PM

**Topics:** Federal Tax Law Updates

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**Thank you for your participation in this presentation!**



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END