



Michigan Tax Law



Filing Basics

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**
- 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

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 who 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
- Someone who can be claimed as a dependent is required to file if AGI exceeds \$1,500 if Single or Married Filing Separately or \$3,000 if Married Filing Jointly

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, "To E-file MI Credits"
 - 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 2021 (or 2022 before filing a 2021 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 2021 MI-1040.
- Use the decedent's name and Social Security number and the personal representatives address.
- If the taxpayer died after December 31, 2020, enter the date of death in the “Deceased Taxpayer” box on page 2 on the 2021 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, 2020, 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

Deaf	An individual whose primary way of receiving messages is through a sense other than hearing (e.g., lip reading, sign language, finger spelling, or reading)
Blind	An individual who has a permanent impairment of both eyes of the following status: The better eye permanently has 20/200 vision or less with corrective lenses, or the peripheral field of vision is 20 degrees or less.
Hemiplegic	An individual who has paralysis of one side of the body
Paraplegic	An individual who has paralysis of the lower half of the body
Quadriplegic	An individual who has paralysis of both arms and both legs

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.

Special Exemptions: Totally and Permanently Disabled

IMPORTANT: The exemption for totally and permanently disabled *cannot* be claimed if the individual is age 66 by the designated date for the tax year

TAX YEAR	DESIGNATED DATE
2020 and Prior	December 31 of the tax year
2021	October 31, 2021 (An individual may qualify if date of birth is ON or AFTER November 1, 1955)
2022	August 31, 2022 (An individual may qualify if date of birth is ON or AFTER September 1, 1956)

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

Exemption Allowances

Exemption allowances for 2022 (per each qualified individual):

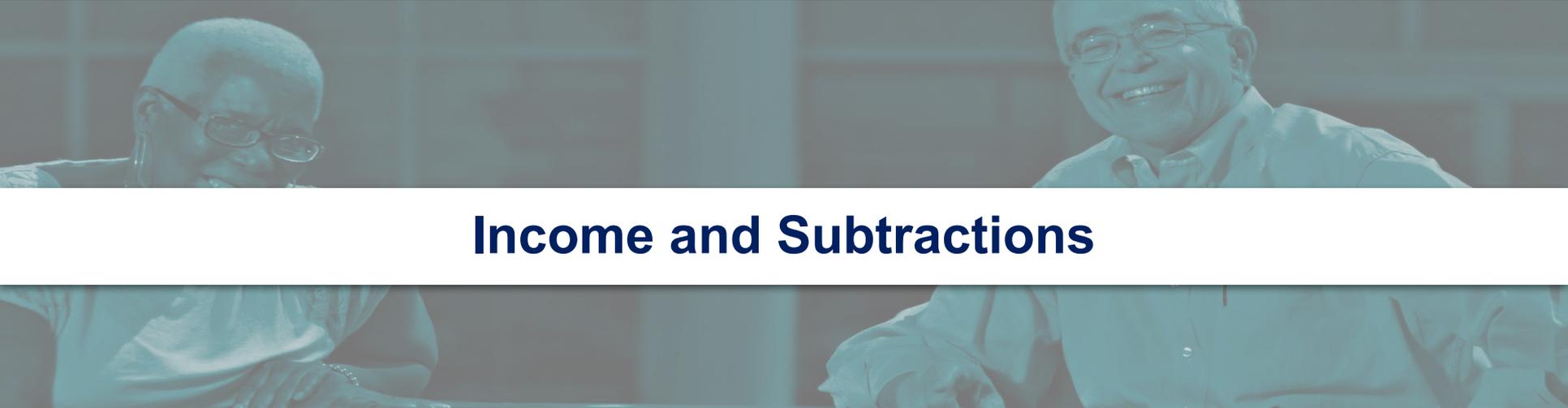
- Personal and dependent exemptions – \$5,000
- Special exemptions – \$2,900
- Qualified disabled veteran exemption – \$400
- Stillbirth exemption – \$5,000
- Exemption for someone who can be claimed as a dependent – \$1,500

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 and Subtractions

Tax

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

- Michigan has a standard rate of 4.25%. The taxable income multiplied by this rate will determine the 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
 $\times 4.25\%$
 = 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 Income:

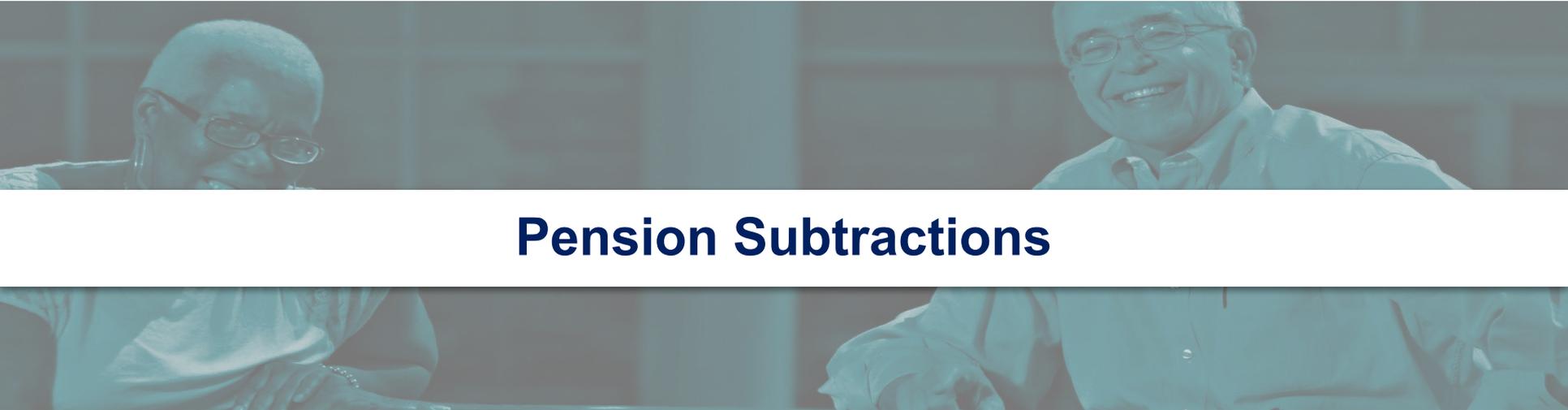
- **Additions** are added to AGI. Most additions carry over from other entries made previously on the tax return. The most common additions we see are:
 - The deduction for self-employment tax taken on the federal 1040

Subtractions from Income

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

Some subtractions we see are:

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



Pension Subtractions

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)

Pension Benefits Subtraction

Once it's been determined that a taxpayer has a qualifying distribution, the pension benefits subtraction is a **two-step** process:

STEP ONE: Distribution code on Form 1099-R

STEP TWO: Age category – Tier 1, Tier 2, or Tier 3

- Tier 1 – Taxpayers born before 1946
- Tier 2 – Taxpayers born in 1946 through 1952
- Tier 3 – Taxpayers born after 1952

Note: MFJ return – The age of the older spouse determines tax treatment.

Pension Benefits Subtraction - Step One

Distribution code	Are the retirement and/or pension benefits eligible for subtraction?
1	Early distribution, no known exception - NOT ELIGIBLE FOR THE SUBTRACTION, even if there is no Federal 10% penalty.
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
3	Disability - YES
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. Client must provide deceased spouse's name, SSN, & year of birth. No, for all other beneficiaries.
7	Normal distribution - YES
5,6,8,9	Out of Scope

Pension Benefits Subtraction - Step Two

TIER 1: Taxpayers born before 1946

- Social Security is exempt
- Senior citizen subtraction for interest, dividends, and capital gains, up to \$12,127 for single filers and \$24,254 for joint filers
 - May be limited if pensions benefits are also subtracted
- Public pensions exempt
- Private pensions exempt, up to \$56,961 for single filers and \$113,922 for joint filers
 - Limit is reduced by any public retirement benefit, military retirement benefit, retirement from Michigan National Guard, and railroad retirement

Pension Benefits Subtraction - Step Two cont.

TIER 2: Taxpayers born in 1946 through 1952

- Social Security is exempt
- Railroad and Michigan National Guard pension are exempt
- Military compensation and pension are exempt
- Not eligible for the senior citizen subtraction for interest, dividends, and capital gains
- Eligible for Standard Deduction:
 - Subtraction against all income of \$20,000 for single filers and \$40,000 for joint filers
 - Subtraction increased to \$35,000 for single filers and \$55,000 for joint filers with pensions from employment with governmental agencies not covered by the SSA, or \$70,000 for joint filers if both spouses worked for an “uncovered” agency
 - Not eligible for this income subtraction to the extent Military income and Railroad/Michigan National Guard pension exemption are claimed.

Pension Benefits Subtraction - Step Two cont.

TIER 3: Taxpayers born after 1952 (before they reach age 67)

- Social Security is exempt
- Railroad and Michigan National Guard pension are exempt
- Military compensation and pension are exempt
- Not eligible for the senior citizen subtraction for interest, dividends, and capital gains
- Not eligible for public or private pension subtraction.
- At age 62, pensions from employment with governmental agencies not covered by the SSA.
 - \$15,000 for single or joint filer or \$30,000 for joint filers if both spouses worked for an “uncovered” agency.
- Beginning in 2018, pension from employment with governmental agencies not covered by the SSA for persons retired as of January 1, 2013, \$35,000 for single filer, \$55,000 for joint filer, or \$70,000 for joint filers if both spouses worked for an “uncovered” agency.

Pension Benefits Subtraction - Step Two cont.

TIER 3: Taxpayers born after 1952 (after they reach age 67)

- Not eligible for the senior citizen subtraction for interest, dividends, and capital gains.
- Not eligible for public or private pension subtraction.
- Income exemption election:
 - Elect exemption against all income of \$20,000 for single filers or \$40,000 for joint filer OR
 - Note: No exemption for Social Security, Military compensation and pension, and Railroad/Michigan National Guard pension. No personal exemptions.
 - Elect to exempt Social Security, Military compensation and pension, and Railroad/Michigan National Guard pension. May claim personal exemptions.
- Beginning in 2018, persons retired as of January 1, 2013 and receiving pension from employment with governmental agencies not covered by SSA may claim standard deduction of \$35,000 for single filer, \$55,000 for joint filer, or \$70,000 for joint filers if both spouses worked for an “uncovered” agency;
 - not eligible for this income subtraction to the extent Military income and Railroad/Michigan National Guard pension exemption are claimed.

Pension Subtraction in TaxSlayer

- TaxSlayer will automatically calculate the subtraction for Tier 2 and Tier 3 (unless the distribution code is 4).
- Taxslayer will not calculate the subtraction for Tier 1 because it needs additional information to create Form 4884 (MI Pension Schedule). Once we enter the information, TaxSlayer will automatically generate Form 4884 and include the subtraction.

Pension Subtraction in TaxSlayer

- If a surviving spouse claimed a subtraction for retirement and pension benefits on a return jointly filed with the decedent in the year they died and the surviving spouse has not remarried, then the surviving spouse may claim the retirement and pension benefits subtraction that would have applied based on the year of birth of the older of the surviving spouse or the deceased spouse.
 - For more information, see instructions for Form 4884.



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 Injured Spouse Allocation Form 8379. It is an Internal Revenue Service form. The Michigan Income Allocation for Non-Obligated Spouse Form 743 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 you made an error on your 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

- Each person is entitled to a personal exemption, including any special exemptions that you 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.
- You must prorate your dependents 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

- 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 the Income Allocation for Non-Obligated Spouse 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 you are claiming a credit
 - A notarized statement from a landowner
 - A copy of your property tax statements from your local assessor
 - A copy of the deed to the property.
- If proof of sole ownership or leasehold is not received with the Income Allocation for Non-Obligated Spouse Form 743, 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 the Income Allocation for Non-Obligated Spouse Form 743 is completed.
- Attach a copy of the death certificate when you return the Income Allocation for Non-Obligated Spouse Form 743.



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.



Refunds and Payments

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 expect to owe more than \$500 when they file their 2022 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, 2022; June 15, 2022; September 15, 2022; 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.

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