Michigan Department of Treasury
3015 (Rev. 12-11)

Michigan Tax Preparer Handbook for Electronic Filing Programs

2011
Individual Income Tax E-file

Michigan Department of Treasury
www.MIfastfile.org

INDIVIDUAL INCOME TAX
E-FILE HANDBOOK

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CHAPTER 1
GENERAL INFORMATION

IMPORTANT ADDRESSES AND TELEPHONE NUMBERS

Michigan electronic filing (e-file) publications and forms are available on the Michigan Department of Treasury (Treasury) Web site at *www.MIfastfile.org.* For questions about the e-file program, contact the Michigan Electronic Filing Programs.

This contact information is for **tax preparers and software developers only** and enables Treasury to provide better service to authorized e-file providers. If the Michigan Electronic Filing Programs staff is unable to provide return status information, address specific taxpayer account issues, or should an error occur on the Michigan return during mainframe processing, Treasury will communicate directly with the taxpayer through the regular error resolution process. Treasury will, however, discuss return situations with the tax preparer if the appropriate authorization box has been completed on the return.

E-file Coordinator and Michigan Electronic Filing Programs Manager	Annette L. Olivier-Wolfe
Program Area, Testing, File Specifications, and Record Layouts	**IIT e-file Contacts** Nancy Agostini Mark Chambers Heather Vellanti
E-mail	***MIefile2D@michigan.gov***
Telephone	(517) 636-4450
Michigan Relay Service	1-800-649-3777
Fax	(517) 636-4378
Michigan Treasury Web Sites	*www.michigan.gov/taxes* *www.michigan.gov/treasury* *www.MIfastfile.org*
Mailing Address	Michigan Department of Treasury P.O. Box 30679 Lansing, MI 48909
Internal Revenue Service (IRS) e-help Desk (Authorized e-file Providers only)	1-866-255-0654
IRS Tax Help Line (individuals only)	1-800-829-1040

Staff is available Monday through Friday, 8 a.m. to 5 p.m. EST, except State holidays. When leaving a message, give as much detail as possible so that Michigan Electronic Filing Programs staff can research the question(s) and have the answer(s) ready when they call back. Speak clearly and spell any difficult names.

Treasury does not recommend sending account-specific information over the Internet. Federal and State disclosure laws require that taxpayer privacy and confidential records that are filed with Treasury are protected. Therefore, Treasury will not send account-specific information over the Internet in response to an e-mail inquiry.

E-mail LISTSERV for Tax Professionals

The Treasury Tax Professionals LISTSERV is a free service that disseminates mass e-mail messages within seconds to all subscribers. To sign up to receive electronic communications on Treasury's e-file programs, other information of interest, or for additional information, visit *www.MIfastfile.org* and select Tax Preparer.

E-file Resources

Visit Treasury's Web site at *www.MIfastfile.org* for a list of e-file resources, how to find an e-file provider, and more information on free e-file services.

Self Service Options

Treasury offers a variety of services designed to assist taxpayers and most are available 24 hours a day, seven days a week. To obtain information about an account using the Internet and Telephone Options listed below, the following information from the return is needed:

- Social Security number (SSN) of the primary filer
- Tax year of the return
- Adjusted gross income (AGI) or household income (HHI)
- Filing status.

Internet Options

Visit *www.michigan.gov/incometax* to find the following information:

- Current tax year forms and instructions
- Answers to Frequently Asked Questions (FAQ's)
- Commonly used tax forms
- Free assistance in preparing tax returns
- Other tax time resources.

Visit *www.michigan.gov/iit* to:

- Check the status of a return
- Check estimated payments made during the year
- Check the status of letters sent to Treasury
- Update an address
- Ask a specific question about an account.

This secure Web site was designed specifically to protect personal tax information.

Telephone Options

Treasury's **Automated Information Service ((517) 636-4486)** phone system is used to:

- Request the status of a refund
- Request information on estimated payments
- Order current tax year forms.

While most questions can be answered by the Automated Information Service, customer service representatives are available 8 a.m. to 4:45 p.m., Monday through Friday.

Assistance is available using TTY through the Michigan Relay Service by calling 1-800-649-3777 or 711.

E-file returns are processed faster than paper returns. Allow 14 days before checking the status of the e-filed by visiting *www.michigan.gov/taxes* and clicking on "Check My Income Tax Info."

STATE OF MICHIGAN HOLIDAY SCHEDULE

September 5, 2011	Labor Day
November 11, 2011	Veterans' Day
November 24 and 25, 2011	Thanksgiving
December 23 and 26, 2011	Christmas
December 30, 2011	New Year's Eve
January 2, 2012	New Year's Day
January 16, 2012	Martin Luther King Jr.'s Birthday Observed
February 20, 2012	Presidents' Day
May 28, 2012	Memorial Day
July 4, 2012	Independence Day
September 3, 2012	Labor Day
November 12, 2012	Veterans' Day
November 22 and 23, 2012	Thanksgiving
December 24 and 25, 2012	Christmas
December 31, 2012	New Year's Eve
January 1, 2013	New Year's Day

CHAPTER 2
INCOME TAX

BENEFITS OF INCOME TAX E-FILE

- **Expanded services offered.** E-file is a valuable addition to a tax preparer's list of client services, which can mean more clients. In addition, prospective clients can find an authorized e-file provider at *www.irs.gov* .

- **Faster refunds for e-file returns.** E-filed returns are processed faster than paper returns**. Allow 14 days** before checking the status of the e-filed return by visiting *www.michigan.gov/*taxes and clicking on "Check My Income Tax Info." Clients can also choose Direct Deposit and have their refunds deposited directly into their accounts at the financial institution of their choice.

- **Improved return accuracy.** Treasury processes the same data that is entered into the computer. The computer program checks for math errors. If an error occurs on a return, the e-file software sends an error message and allows the tax preparer to immediately correct the mistake before the return is transmitted. There is two-thirds less chance of error compared to a paper return.

- **Increased customer satisfaction.** Only tax preparers and their clients see the returns. Confidential information is protected by secure socket layer (SSL) 128-bit encryption. Also, an acknowledgment is sent to verify the return was received and accepted for processing.

INTRODUCTION

Treasury has joined with the IRS to provide for electronic filing of income tax returns. The Fed/State e-file Program enables taxpayers to electronically file both federal and state returns through their tax preparers as part of the program's effort to provide "one stop shopping" for tax preparation and filing. The State-Only e-file Program enables taxpayers to electronically file their Michigan return separately from the federal return. Beginning **January 17, 2012**, Treasury will accept electronically transmitted individual income tax returns from all tax preparers and transmitters who have been accepted in the Fed/State e-file Program.

To optimize operation efficiency and improve customer service, Treasury has joined with the IRS Fed/State Modernized e-File (MeF) program for filing individual income tax returns. During this transition period, Michigan along with the IRS will support the current e-file program (Electronic Management System (EMS)) as well as MeF. The tax preparer's software will determine which method of transmission will be used based on the type of return filed.

MeF will not change the way tax preparers transmit e-file returns. Tax preparers may not even know the return was transmitted as a MeF return, although a rapid IRS acknowledgment will be the giveaway. In most cases, the returns are sent to a transmitter who then sends the returns to the IRS. Tax preparers should discuss MeF with their software provider to find out specifically what the provider is offering.

MeF will deliver significant value and benefits to tax preparers beyond the capabilities of the current e-file system. Some benefits through MeF include:

- **Year-Round Filing.** Returns filed through MeF can be submitted year-round.

- **Prior Year Returns.** MeF will allow filing of prior year *Michigan Individual Income Tax* (MI-1040) returns. Tax returns for 2009, 2010, and 2011 will be accepted during the 2012 processing year. As subsequent tax years are added to the system, MeF will accept the current tax year and two prior tax years.

- **PDF Attachments.** MeF accepts Portable Document Format (PDF) attachments with e-filed returns. See page 10 for more information.

- **Detailed Error Conditions.** As part of the MeF delivery process, Michigan computers automatically check the return for mistakes. If we find easy-to-fix mistakes, like a math error or a missing form, we send the return back to you. You can fix it and send the return right back. This saves time and prevents a simple mistake from holding up a refund. Michigan will provide up to ten error rejection codes per return.

The *Michigan Tax Preparer Handbook for Electronic Filing Programs 2011 (Michigan Handbook)* follows the same format as IRS *Publication 1345 Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns* (referred to as *Publication 1345*). The *Michigan Handbook* sets forth those items that are unique to Michigan. The *Michigan Handbook* should be used in conjunction with *Publication 1345* and the Michigan Income Tax instruction booklets. Michigan will conform to all requirements, rules, and regulations governing tax preparers as set forth by the IRS.

HIGHLIGHTS AND IMPORTANT INFORMATION FOR TAX YEAR 2011

E-file Requirements

To optimize operational efficiency and improve customer service, Treasury mandates e-file of individual income tax returns. Beginning **January 1, 2012**, the IRS is mandating preparers filing 11 or more income tax returns to e-file those returns, with minor exceptions. Michigan would expect any preparer e-filing federal returns to also e-file Michigan returns. Tax preparers who prepare 11 or more individual income tax returns are required to e-file all eligible forms that are supported by their software. Software developers producing software for professional tax preparers will need to support e-file for all Michigan income tax forms that are included in the tax preparation software package.

2-D Barcodes Discontinued Tax Year 2011

Beginning **January 1, 2012**, the IRS e-file mandate for individual income tax returns will apply to preparers who file 11 or more returns. Michigan would expect any preparer e-filing federal returns to also e-file the Michigan returns. Based on the anticipated decrease in the volume of 2-D barcode returns, Treasury cannot justify the time and expense required to continue to support 2-D barcoding. Therefore, Treasury will not support 2-D barcoding for the 2011 tax year.

Michigan Sales and Other Dispositions of Capital Assets (Form MI-8949)

Following the IRS changes to the Schedule D, Michigan has created a new form *Michigan Sales and Other Dispositions of Capital Assets* (MI-8949). Form MI-8949 should be included with *Michigan Adjustment of Capital Gains and Losses* (MI-1040D).

Legislative Changes to the Michigan Income Tax Act for Tax Year 2012

Public Act (PA) 38 of 2011 (HB 4361) signed into law May of 2011 contains extensive changes to Michigan's Individual Income Tax, most of which will not affect individual income tax returns filed until the 2012 tax year. One exception is the income tax rate which will remain at 4.35 percent for 2011 and 2012. The rate reduction to 4.25 percent which was scheduled to occur on October 1, 2011 was eliminated. Many taxpayers will be impacted by the other changes and should review and adjust their quarterly estimated income tax payments for 2012 tax year accordingly. Additional information can be found at *www.michigan.gov/taxes*.

New Voluntary Contribution Fund

Beginning with the 2011 tax year and subsequent years, contributions to the Girl Scouts of Michigan Fund will be appropriated to each county from which a donation is received. Funds will be used to prepare young people to make ethical and moral choices over their lifetimes by instilling in them the values of the scout oath and law.

Small Business Investment Tax Credit

The Small Business Investment Tax Credit Program provides Qualified Investors a 25 percent tax credit over a two year period on Qualified Investments in Qualified Businesses. Qualified Investments must be made between December 31, 2010 and January 1, 2012 to be eligible for tax credit. Taxpayers eligible for this credit will have received a certificate from the Michigan Strategic Fund Board, Small Business Investment Tax Credit Program. The certificate must be attached to the taxpayer's return. Visit *www.MichiganAdvantage.org/SBITC* for more information.

Michigan Qualified Adoption Expenses

Michigan Qualified Adoption Expenses (Form MI-8839) will **not** be eligible for e-file for tax year 2011.

Renewable Energy Surcharge Credit

The renewable energy surcharge credit is based on an itemized surcharge for renewable energy that may appear on the residential electric bill. Customers of DTE Energy pay the maximum surcharge of $3 per month, customers of Consumers Energy pay $2.50 per month, and other utilities may impose the surcharge. Taxpayers may claim the credit only if the surcharge appears on their monthly utility bill. Municipal utility customers may **not** claim this credit. To be eligible for this credit, Annual Gross Income (AGI) must be no more than $65,000 for single/married filing separate or $130,000 for joint filers.

Filing Extension Granted for Military Personnel Serving in a Combat Zone

United States military personnel serving in a combat zone on April 17, 2012, will be given 180 days after leaving the combat zone to file their federal and State tax returns and will be exempt from penalties and interest. "Combat Zone" should be entered for these returns in the Michigan Preparer Notes feature. Visit *www.michigan.gov/taxes* for more information.

General Information

For tax year 2011:

- The **personal exemption** allowance is $3,700.
- The **tax rate** is 4.35 percent.
- The special **exemption allowance** is $2,400.
- The **pension deductions** are $45,842 for a single return and $91,684 for a joint return.
- The **dividend, interest, and capital gain deductions** for senior citizens are $10,218 for a single return and $20,437 for a joint return.
- The **home heating credit** allowances and income ceilings are listed in the Appendix.

The information from the W-2 and 1099 forms is entered in the software and transmitted with the e-file return. Do **not** mail W-2s, 1099s, or federal forms and schedules to Treasury. The Schedule W should be provided to the taxpayer with the printed copy of the return.

For income tax returns, if the federal extension request was e-filed and there is no money due, tax preparers should retain a copy of the federal extension information in their file. Copies of the extension should **not** be mailed to Michigan. If money is due, either the federal or Michigan extension form must be mailed to Treasury along with the payment.

Taxpayers granted an extension to file their federal returns should enter "Federal Extension granted to MM-DD-YYYY" in the Michigan Preparer Notes field.

If the taxpayer has an obligation to file returns in multiple states, each state's e-file program should be reviewed to determine which state should be filed as a Fed/State return. A Portable Document Format (PDF) attachment of the other state return may be attached when supported by the software.

KEY DATES AND REFERENCE INFORMATION

Michigan Income Tax Electronic Filing Calendar

For Tax Period January 1, 2011 to December 31, 2011:

Note: These dates are subject to change.

Electronic Return Acceptance Period	Identical to the IRS
Federal and State Software Testing*	Identical to the IRS
Transmitting Returns to the IRS and Michigan Department of Treasury	January 17, 2012
MI-1040-V Payments Due	April 17, 2012
Last Date to File MI-1040CR-7	September 30, 2012
Last Date to Transmit Michigan Returns Electronically	Identical to the IRS

*State testing for software developers will begin after software developers have received some acceptance acknowledgments in accordance with the IRS guidelines outlined in *Publication 1436 Test Package for Electronic Filers of Individual Income Tax Returns for Tax Year 2011.*

State Program Data

Acknowledgment System

IRS State Acknowledgment System	1-866-255-0654 or *www.irs.gov*

State Personal Assurance Testing Systems (PATS) Testing

State PATS Testing Required	Software developers only

State Program Description

Type of e-file Program	Fed/State and State-Only
Number of State Taxpayers	5 million
Fed/State e-file Returns, 2010	3.5 million
E-File Refund Timeframe	Faster refunds for e-file returns
Paper Refund Timeframe	Considerably longer
Average State Refund, 2010	$570.53
Direct Deposit	Yes
Electronic Fund Withdrawals	No
Balance Due Returns	Yes
Direct Debit/Automatic Fund Withdrawals	No
Signature Process	No-Fed/State (linked) Yes-State-Only (unlinked)

Publications

The following publications provide information for tax professionals participating in the Fed/State e-file program.

IRS Publications and Forms: *www.irs.gov*

Publication 1345 Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns

Publication 1345A Filing Season Supplement for Electronic Return Originators (Tax Year 2010)

Publication 1346 Electronic Return Specifications and Record Layout for Individual Income Tax Returns

Publication 1436 Test Package for Electronic Filing of Individual Income Tax Returns

Publication 3112 IRS e-file Application and Participation

Publication 4557 Safeguarding Taxpayer Data Guidelines

Publication 4600 Safeguarding Taxpayer Information

Form 9325 Acknowledgment and General Information for Taxpayers Who File Returns Electronically

Treasury Publications and Forms: *www.MIfastfile.org*

Publication 3015 Michigan Tax Preparer Handbook for Electronic Filing Programs 2010

Michigan Individual Income Tax Declaration for Electronic Filing (Form MI-8453)

Michigan Individual Income Tax e-file Payment Voucher (Form MI-1040-V)

FED / STATE OR STATE-ONLY ELECTRONIC FILING

How Fed/State Electronic Filing Works

Tax preparers and transmitters accepted into the IRS e-file program may participate in the Fed/State e-file Program and file both the federal and State returns together in one transmission to the IRS Service Center. The IRS will acknowledge acceptance of the federal return and receipt of State data. The IRS acknowledgment record will indicate if a State return has been submitted. The State data will then be made available for retrieval by Treasury. After the State data is retrieved, it will be acknowledged and, if accepted, processed by Treasury.

MeF Note:	**The IRS recommends if a state submission is linked to an IRS submission, sending the IRS submission first and, after it has been accepted, sending in the state submission.**

How State-Only/State Stand Alone Electronic Filing Works

The federal return does not have to be e-filed and accepted before e-filing the Michigan State-Only return. However, the federal tax return should be computed before computing the Michigan tax return.

Tax preparers and transmitters accepted in the IRS e-file program may participate in the State-Only/State Stand Alone e-file Program if it is supported by their software. Tax preparers will have to indicate in their software that it is a State-Only/State Stand Alone filing. The IRS will perform minimal validation on the State return and issue an acknowledgment. If the return passes validation, the State data will be made available for retrieval by Treasury. After the data is retrieved, it will be acknowledged and, if accepted, processed by Treasury.

Treasury will acknowledge receipt of all returns retrieved from the IRS using the IRS State Acknowledgment Service. The transmitter should receive the Michigan acknowledgment within three days from the date the return is successfully transmitted to the IRS. The Electronic Transmitter Identification Number (ETIN) must be entered correctly in the software to act as a mailbox to receive acknowledgments.

All returns, whether e-filed or paper-filed, are subject to Michigan audit and can be delayed regardless of the acknowledgment code received. Returns are processed and refunds are issued daily.

Taxpayers who e-file returns with tax due are responsible for submitting payment of the balance due with *Michigan Individual Income Tax e-file Payment Voucher* (Form MI-1040-V) by April 17, 2012. Do **not** include Form MI-1040-V when mailing a paper return and payment. Form MI-1040-V is to be used only for e-file payments.

APPLICATION AND ACCEPTANCE PROCESS

Who May Participate

E-filing of Michigan returns is available to all e-filers who have been accepted into the federal e-file program and who transmit returns to an IRS Service Center. Beginning **January 1, 2012**, the IRS is mandating preparers filing 11 or more income tax returns to e-file those returns, with minor exceptions. Michigan would expect any preparer e-filing federal returns to also e-file the Michigan returns.

To participate, applicants must first apply to the IRS and be accepted. Individuals must register with IRS e-Services and create a new (or revised) IRS e-file application. Individuals can contact e-Help toll-free at 1-866-255-0654 for assistance with the IRS e-file application or if unable to register for e-Services.

Publication 3112 IRS e-file Application and Participation specifies the application process and requirements for federal participation. The definitions used by the IRS of the various categories of electronic filers, electronic return originators (EROs), transmitters, or software developers also applies for Michigan e-filing purposes.

Once accepted into the IRS e-file program, participation in Michigan's e-file program is automatic. Treasury will use the EFIN assigned by the IRS. Michigan does not assign any additional identification numbers.

IRS regulations require paid tax preparers to use Preparer Tax Identification Numbers (PTINs) for all tax returns and refund claims. Visit the IRS Web site at *www.irs.gov* for more information.

To participate in the Fed/State and State-Only e-file programs, e-filers must use software that has successfully completed the IRS and Michigan PATS. Confirm that the software chosen has been approved for Michigan and that the Michigan e-file program is operational before transmitting returns.

If, after acceptance, a tax preparer/transmitter or software company has production problems, Treasury reserves the right to suspend that tax preparer/software company for part or all of the remainder of the filing season.

MICHIGAN PORTION OF THE ELECTRONIC RETURN

The Michigan portion of an electronic return consists of data transmitted electronically and the supporting paper documents. The paper documents contain information that cannot be transmitted electronically, such as taxpayers' signatures.

Electronic Michigan Returns

The following forms and schedules can be e-filed:

Form/Schedule	Title
MI-1040	Individual Income Tax Return - Required for all Fed/State e-file returns; not required for State-Only e-file returns.
Schedule 1	Additions and Subtractions
Schedule 2	Nonrefundable Credits
Schedule NR	Nonresident and Part-Year Resident Schedule
MI-1040CR-5	Farmland Preservation Tax Credit Claim
Schedule CR-5	Schedule of Taxes and Allocation to Each Agreement (Including returns for Property Development Rights and/or joint agreements that are not equally apportioned)
MI-1040CR **or** MI-1040CR-2	Homestead Property Tax Credit Claim **or** Homestead Property Tax Credit Claim for Veterans and Blind People **Note:** Either MI-1040CR **or** MI-1040CR-2 may be filed, but not both.
Schedule CT	College Tuition and Fees Credit
All required federal forms and schedules	
3174	Direct Deposit of Refund
MI-1040H	Schedule of Apportionment (one occurrence)
MI-2210	Underpayment of Estimated Income Tax
4013	Resident Tribal Member Annual Sales Tax Credit
W-2 form(s), 1099 form(s)	**Note:** The information from the W-2 and 1099 forms is entered in the software and transmitted with the e-file return. Do **not** mail W-2 and 1099 forms to Treasury. All 1099 and W-2 information, when applicable, is required when submitting a State-Only return. The Schedule W should be included in the copy of the printed return.
MI-1040D	Adjustment of Capital Gains and Losses
MI-8949	Sales and Other Dispositions of Capital Assets
MI-4797	Adjustments of Gains and Losses From Sales of Business Property
4642	Voluntary Contribution Schedule
4764	Energy Efficient Qualified Home Improvement Credit
MI-1040CR-7	Home Heating Credit Claim

Individual Income Tax forms, line reference, and filing conditions where PDF attachments are accepted by Michigan.

Form	Line	Description	File Name	Required
MI-1040	30	Stillbirth Credit	StillbirthCredit.pdf	Yes
Schedule 2	9	Individual and Family Development Account Credit and/or Small Business Investment Credit	IFDACredit.pdf and/or SmallBusinessInvestCredit.pdf	Yes
Schedule 2	5	Other State Returns	OtherStateReturn.pdf	No
All Forms		Power Of Attorney	POA.pdf	No

Assemble the documents in the order listed on page 14 with *Michigan Individual Income Tax Declaration For Electronic Filing* (Form MI-8453), if applicable, attached last and retain them in the taxpayer's file or give them to the taxpayer to retain.

If it becomes necessary to supply Treasury with a paper copy of the return and the supporting documents, it must be assembled as noted above with Form MI-8453, if applicable, attached last. *Michigan Heating Credit Claim* (Form MI-1040CR-7) should not be stapled to the return if it becomes necessary to supply Treasury with a paper copy. Instead, it should be folded and left loose in the envelope. For additional information on how to complete and file paper returns, refer to page 5 (Form MI-1040).

Exclusions From E-file

When the following forms are included, Form MI-1040 **can be e-filed**, but the forms listed below **must be mailed** to the address indicated on the form.

Form	Title
MI-1045	Application for Michigan Net Operating Loss Refund
4	Application for Extension of Time to File Michigan Tax Returns

The taxpayer is **not eligible for e-file** for the 2011 tax year if:

- Filing returns or forms listed as excluded in *Publication 1345*
- Filing Form **MI-1040** and any of the following apply:

    Prior year return(s) (2008 or prior when not supported by the software)

    Fiscal year return(s)

    Not required to file a U.S. Form 1040 if filing Fed/State

Filing Form Schedule CR-5 and the taxpayer has more than 25 agreements

Filing more than one occurrence of the MI-1040H, Schedule of Apportionment.

- Filing Form MI-4797 with any of the following:

  More than 16 sales/exchange of property held over one year

  More than 13 sales/exchange of property held one year or less

  More than 14 gains from disposition of property under Sections 1245, 1250, 1252, 1254, and 1255

- Filing Form MI-8949 with any of the following:

  More than 20 short-term capital gains/losses

  More than 24 long-term capital gains/losses

- The software doesn't support PDF attachments and claiming any of the following credits:

  Individual or Family Development Account

  Small Business Investment Credit

  Stillbirth Credit.

- Filing one or more of the following forms:

Form	**Title**
3581	Michigan Historic Credit
4534	Venture Capital Deduction
MI-1040X	Amended Michigan Income Tax Return
MI-1041	Fiduciary Income Tax Return
MI-8839	Michigan Qualified Adoption Expenses
MI-1041	Fiduciary Income Tax Return

Nonelectronic Portion of Michigan Returns

The nonelectronic Michigan return consists of the following supporting documents:

- **Copies of other states' returns for credit.** Copies should be retained in the taxpayer's records when PDF attachments are not supported by the software.

- **Form MI-8453.** See the "Michigan E-file Signature Process" section of this Handbook for more information on Form MI-8453.

- **Form MI-1040-V.** If tax is due on an e-file return, the taxpayer must submit payment by check or money order by April 17, 2012, with Form MI-1040-V.

- **Copies of property tax bills.** Copies should be retained in the taxpayers' records. Treasury may request copies to verify tax information.

- **Form MI-1040CR-5.** Farmland returns claiming unequal distribution of property taxes on jointly owned land must have a distribution statement signed by all owners. Part 2 of *Farmland Preservation Credit Claim* (Form MI-1040CR-5) may be used for this purpose. Do **not** mail a copy of Form MI-1040CR-5 or the signed statement to Treasury. A copy of the signed statement should be retained to avoid reduction and/or denial of the credit at a later date. Treasury may request a copy of the signed statement be submitted to verify the unequal distribution claimed.

MICHIGAN E-FILE SIGNATURE PROCESS

The Michigan Individual Income Tax e-file signature process is as follows:

- **For Fed/State Returns:**

  Michigan will accept the federal signature (Self-Select Personal Identification Number (PIN) or Practitioner PIN). Michigan does not require any additional signature documentation. If the taxpayer chooses to complete Form MI-8453, Treasury recommends the tax preparer retain it for six years. Do **not** mail this form to Treasury.

- **For State-Only Returns:**

  State-Only returns that are filed with or without Form MI-1040 can be signed using "shared secrets" or Form MI-8453 signature document. The shared secrets consist of the SSN(s), previous year's AGI or Household Income (HHI), and the previous year's tax due or refund amount. If Form MI-8453 is used, the tax preparer may retain a copy of Form MI-8453. Form MI-8453 should **not** be mailed to Treasury.

Notes: The AGI or HHI and refund or tax due amount must be from the previous year's return. Treasury can accept this information from the original return, amended return, or return as corrected by Treasury.

If the return is signed using shared secrets and the return is rejected because the shared secrets do not match, the taxpayer/tax preparer may correct the shared secrets information and retransmit. There is no limit on how many times a State-Only return can be retransmitted in this circumstance.

The signed Form MI-8453 may be filed with the paper return **for signature purposes only** if the taxpayer had not previously signed a copy of the paper return. The tax preparer should attach Form MI-8453 as the last sheet of paper and write on Form MI-8453 "for signature only."

If a taxpayer chooses Direct Deposit and the return is subsequently rejected, he or she must make sure the Direct Deposit information is entered on Form MI-1040; or, if requesting Direct Deposit for a home heating credit refund, complete *Michigan Direct Deposit of Refund* (Form 3174) and submit it with the paper return.

Declaration of Taxpayer

After the return has been prepared and before the return is transmitted electronically, the taxpayer (and spouse, if a joint return) must verify the information on the return and sign and date Form MI-8453. The tax preparer or transmitter must provide the taxpayer with a copy of the Form. Tax preparers and EROs are prohibited from allowing taxpayers to sign a blank Form MI-8453.

Corrections to Form MI-8453

If the tax preparer or transmitter makes changes to the electronic return after the taxpayer has signed Form MI-8453 but before the data has been transmitted, the tax preparer or transmitter must have the taxpayer complete a corrected Form MI-8453 if the following conditions apply:

- Federal AGI differs from the amount on the electronic return by more than $25.
- The Michigan refund changes by more than $5.

Nonsubstantive changes are permissible on Form MI-8453, provided the tax preparer or the person making the corrections initials the changes.

Volunteer Groups

If a taxpayer completes Form MI-8453, it should be mailed to Treasury. Treasury recommends collecting all of the Forms MI-8453 and, at the end of the filing season, sending them to Treasury at the address included in the instructions for the form. Volunteer tax preparers may also provide taxpayers with their Forms MI-8453 and instruct them to mail it to Treasury. If located in a permanent facility, volunteer tax preparers may retain Forms MI-8453 on file as does a paid tax preparer.

IMPORTANT REMINDERS FOR MICHIGAN RETURN PREPARATION

Direct Deposit

The Direct Deposit information for federal and State can be different. This is especially important if there is a Rapid Refund or Refund Anticipation Loan (RAL), and the Michigan refund should not go towards repayment of the loan. Make sure this information is correct for both federal and State refunds. Tax preparers may want to request documentation from the taxpayer to verify the bank account information. (See Chapter 3, page 26, for additional information on Direct Deposit)

> **Important!** Treasury cannot make any changes to Direct Deposit information after the return is transmitted.

Direct Deposit requests associated with a foreign bank account are classified as International ACH Transactions (IAT). If an income tax refund Direct Deposit is forwarded or transferred to a financial institution in a foreign country, the Direct Deposit will be returned to Treasury. If this occurs, the refund will be converted to a check (warrant) and mailed to the address on the tax return. Taxpayers should contact their financial institutions for questions regarding the status of their bank account.

Withholding

Verify total Michigan withholding claimed on Schedule W, line 3, agrees with total Michigan tax withheld as reported on W-2 and 1099 forms. In most cases, the total withholding amount should not exceed $999,999. Be careful not to report federal withholding, other state withholding, or FICA amounts as Michigan tax withheld.

Form 1099-R Distribution Code

The codes for pension subtractions from box 7 of Form 1099-R must be included in the federal record information. Distribution Code 1 (Early Distribution) is **not** an allowable subtraction on the Michigan return.

Schedule 1

Line 20 (Miscellaneous Subtractions) on Schedule 1 must include a description of the subtraction. “Miscellaneous” or “Misc.” is not acceptable. Include the federal schedule reference, such as “See U.S. Schedule R, line 19,” if applicable. The Preparer Notes field may be used for additional description information if necessary.

Line 9 on Schedule 1 should include compensation received for active duty in the U.S. Armed Forces only. Compensation from the U.S. Public Health Service is **not** considered military pay.

Gambling winnings reported on Form 1099G are **not** an allowable subtraction on Schedule 1.

Homestead Property Tax Credit

A taxpayer must be a Michigan resident for at least six months in 2011 to be eligible for the homestead property tax credit.

To verify accurate information and avoid processing delays and/or adjustment of the credit, Treasury recommends the taxpayer provide property tax statements to support the property taxes claimed on Form MI-1040CR.

Property taxes should not be estimated. Ad valorem taxes that were levied on the homestead in 2010, including collection fees up to 1 percent of the taxes, can be claimed no matter when they are paid. Most special assessments for drains, sewers, and roads do not meet specific tests and may not be included in the computation of the credit. Special assessments may be included only if they are levied using a uniform millage rate, are based on taxable value, and are either levied in the entire taxing jurisdiction or they are used to provide police, fire, or advanced life support services and are levied township-wide, except for all or a portion of a village.

Verify the taxable value is correctly entered on Form MI-1040CR, line 6, and the property taxes are entered on Form MI-1040CR, line 7.

Verify the rent paid on Form MI-1040CR, line 8, is equal to the monthly rent multiplied by 12, not the annual rent multiplied by 12.

Farmland Preservation Tax Credit

It may be helpful to ask the taxpayer to provide copies of the agreements being claimed to verify information and avoid processing delays.

Agreement numbers with an expiration year-end date equal to “01” through “10” are not eligible for e-file. Tax preparers filing such returns may contact the Michigan Electronic Filing Programs Office at (517) 636-4450 for assistance.

Multiple names on property tax statements indicate joint ownership**. Returns filed claiming joint ownership must have the signed distribution statement for all other owners.** Tax preparers should retain a copy of the signed statement in their records. Do **not** mail the signed Form MI-1040CR-5 to Treasury. To avoid the credit being reduced or denied at a later date, the tax preparer must be able to provide a copy of the signed statement upon request.

Farmland agreement numbers consist of:

- **County Code:** First two-digits of the agreement number.
- **Contract Number:** The middle set of numbers between the county code and the expiration date. This number may or may not include a letter depending on if the agreement has been split.

- **Expiration Date:** Last six-digits of the agreement number. The first four-digits are always "1231." The last two-digits are the year the agreement expires. Item 7 in the agreement shows the expiration date. Years ending in "01" through "10" are not eligible for e-file. Tax preparers filing agreements expiring in "2101" through "2110" may contact the Michigan Electronic Filing Programs Office for assistance.

Property Development Rights

Taxpayers filing Property Development Rights (PDR) on Form MI-1040CR-5/Schedule CR-5 are eligible for e-file. A PDR is an easement purchased from the landowner by the Michigan Department of Agriculture on behalf of the State of Michigan to protect prime farmland from development.

PDR numbers will begin with the county code where the land is located, followed by the purchase number (always begins with "PR"), followed by the date "123199." The "123199" date is used as a default date for e-file purposes only; a PDR does not have an expiration date (e.g.19-PR2625-123199).

Preparer Notes

Software may include a Preparer Notes field for the Michigan return. The purpose of this field is to capture additional descriptive information from lines that did not have sufficient space. Descriptions should only be placed here when necessary. Information should be identified by the form and line number.

Tax preparers are encouraged to utilize the Preparer Notes feature when supported by the software.

If e-filing both the federal and Michigan returns at the same time, Treasury can view information that is entered in the Preparer Notes field for the federal return. Using the Preparer Notes fields for both federal and State returns may reduce the need for Treasury to write to the taxpayer for additional information.

The federal Preparer Notes field can contain up to 4,000 data characters. The Michigan Preparer Notes field can contain up to 56 characters. Information in the Preparer Notes field should be identified by the form and line number.

Examples of information that can be included in the Preparer Notes field:

- "Combat Zone" if taxpayer is serving in a combat zone
- "Federal Extension granted to MM-DD-CCYY" if taxpayer has been granted an extension to file his or her federal return
- Explanation of a large subtraction
- Explanation of a miscellaneous subtraction

- Explanation of how a property tax credit is being filed when return is "Married filing separate," especially when spouses maintain separate addresses

- Explanation of a property tax credit and/or home heating credit claim when two or more taxpayers are sharing a home

- Explanation of how taxpayer met expenses when HHI is very low

- Additional Form MI-1040CR-7 dependents beyond those listed on the form

- Explanation if using a mailing address other than taxpayer's residence

- City of Toledo tax

- Co-owners share of property taxes

- Explanation of multiple credits filed from the same address

- Explanation of multiple family dwellings

- Explanation of taxpayers paying room and board/property tax credits

- Farmland agreement number reduced for exception by percent

- Farmland signed distribution on file

- Identify where prior year farmland refund is included on federal return.

Safeguarding the E-file Program From Abuse and Fraud

All authorized e-file providers must be diligent in recognizing and preventing fraud and abuse in the e-file program. Neither the IRS, Michigan, nor the program participants benefit when fraud or allegations of abuse tarnish the integrity and reputation of the program. Providers with problems involving fraud and abuse may be suspended or expelled from participation in Michigan's e-file program, be assessed civil and preparer penalties, or be subject to legal action. Refer to IRS *Publication 4557 Safeguarding Taxpayer Data, A Guide for Your Business*, and *Publication 4600 Safeguarding Taxpayer Information.*

TRANSMITTING THE MICHIGAN ELECTRONIC RETURN

The ERO, tax preparer, and/or electronic transmitter must follow all electronic transmitting procedures, communication requirements, and technical specifications required by the IRS as defined in *Publication 1345* to transmit the State electronic return with or without the federal return.

Where to Transmit Fed/State and State-Only Returns

Participants must confirm with their software developers or direct transmitters that the software has been accepted for transmitting the returns to the IRS Service Center. Participants should also confirm that the Michigan e-file portion of the software program is operational before transmitting returns.

Important! The ETIN must be entered correctly in the software to act as a mailbox to receive acknowledgments. Michigan cannot post acknowledgments into unidentified mailboxes.

Acknowledgment of Electronic Returns

Michigan uses the IRS State Acknowledgment Service. The Michigan acknowledgment informs transmitters that the Michigan return data has been received. The Michigan acknowledgment is separate from the federal acknowledgment. Repeated rejections may cause the IRS to rescind the e-file privileges of an electronic transmitter. Refer to IRS *Publications 1345* and *1345A* for IRS rejection and error code explanation.

If a federal return is rejected due to errors listed in *Publication 1345A*, the accompanying Michigan return will also be rejected. If the error is one that can be corrected, both return records may be retransmitted to the IRS. Do not assume that an acknowledgment from the IRS is a guarantee of receipt by Michigan.

Under normal processing conditions, the Michigan acknowledgment file is available to a transmitter within three business days of successful transmission to the IRS. Transmitters who transmit for EROs and tax preparers must notify taxpayers of the Michigan acknowledgment at the time of receipt.

Michigan tax due returns are considered timely filed if the federal and State returns are originally transmitted to the IRS by April 17, 2012. Payments must be submitted with Form MI-1040-V and postmarked no later than April 17, 2012.

Status Codes Received from Michigan Department of Treasury

Treasury will perform certain checks on the State return during the acceptance process. All returns, whether e-filed or paper-filed, are subject to Michigan audit, and can be delayed regardless of the acknowledgment code given. Should an error occur on the Michigan return during processing, Treasury will communicate directly with the taxpayer through the regular error resolution process. Treasury will discuss return situations with the preparer if the appropriate authorization box has been completed on the return.

Filing Status

A= Electronic return was **accepted** and will be reviewed and processed.

E= A Fed/State filing is received with an Imperfect Return Indicator and the Michigan Return is accepted.

D= Duplicate return. A return has already been received and **accepted** for this SSN, or a duplicate of a previously rejected return.

R= Electronic return was **rejected** by Michigan. The return can be retransmitted as a State-Only/State Stand Alone return. If the return was filed using shared secrets and the return is rejected because the shared secrets do not validate, the taxpayer/preparer may correct the shared secrets information and retransmit. There is no limit on how many times a State-Only/State Stand Alone return can be retransmitted.

The IIT e-file Business Rules (rejection codes) are posted in a separate document on Treasury's Web site at *www.MIfastfile.org*, under the Tax Preparer tab.

MICHIGAN INDIVIDUAL INCOME TAX E-FILE PAYMENT VOUCHER FORM MI-1040-V

Michigan will accept e-file returns with a balance due at any time during the e-file processing season. Electronic filers must furnish Form MI-1040-V to a taxpayer who e-files a return with a balance due. Instructions for completing and mailing Form MI-1040-V are located on the form.

Tax preparers must inform taxpayers that payment of taxes due should be made no later than April 17, 2012. Taxpayers who do not make full payment of income tax on or before April 17, 2012, will receive an invoice. The invoice will show tax due plus applicable penalty and interest.

Important! To ensure timely posting of payments, use Form MI-1040-V only for e-file returns. Do not use Form MI-1040-V to make other payments to the State of Michigan. Do not include Form MI-1040-V when mailing a paper return and payment.

RESPONSIBILITIES OF ELECTRONIC FILERS, TRANSMITTERS, AND EROs

E-filers, transmitters, and EROs must abide by the terms set forth in the *Michigan Handbook* and must maintain a high degree of integrity, compliance, and accuracy to continue to participate in the Fed/State and State-Only e-file programs.

Program Compliance

All e-filers must comply with the requirements and specifications set forth in IRS *Publications 1345*, *1345A*, and *1346*; the *Michigan Handbook*; and the *E-file Software Developer Guide, Michigan Income Tax for 2011*.

Timeliness of Filing

Transmitters must ensure electronic returns are transmitted timely. The date of transmission to the IRS will be considered the filing date for a Michigan return, providing the return was accepted. If a rejected return is corrected and retransmitted within two to three days of the original transmission, then the original transmission date is still considered the filing date. For the 2011 tax year, tax due returns will be considered timely filed if the original federal and Michigan returns have been transmitted on or before April 17, 2012.

Transmitters should confirm that Michigan has issued an acknowledgment of the State return before considering the State filing complete.

Tax Preparers' Responsibility to Clients

Tax preparers have been entrusted with the task of filing a client's tax return and must assume the responsibility of ensuring the return arrives at Treasury. In the event the e-filed State return fails to arrive or is rejected and cannot be retransmitted, tax preparers must notify their clients to file a paper return.

Changes on the Return

If corrections must be made once the return has been accepted and acknowledged, the taxpayer must file Form MI-1040X on paper.

Acknowledgment of the Michigan Return

Michigan acknowledgments are issued through the IRS State Acknowledgment Service.

Once Treasury has acknowledged an electronic return, transmitters are required to notify their EROs of acceptance within five business days.

Transmitters and EROs must advise taxpayers that e-file returns are usually processed within 14 business days. Allow 14 days before checking the status of an e-filed return by visiting *www.michigan.gov/taxes* and clicking on"Check My Income Tax Info."

Treasury will discuss any inquiries regarding a return with errors with the taxpayer or agent who has a power of attorney on file for the year in question.

CHAPTER 3
DIRECT DEPOSIT

BENEFITS OF DIRECT DEPOSIT

Michigan taxpayers can elect to have their 2011 Michigan income tax refunds directly deposited into their checking or savings accounts. When filing electronically, Direct Deposit is part of the electronic record.

Direct Deposit is:

- **Convenient.** The refund is deposited directly into the taxpayer's account at the financial institution of his or her choice.

- **Safe.** Refunds made by Direct Deposit are never lost or stolen**.**

- **Reliable.** Refunds are deposited electronically, even when taxpayers are on vacation or traveling on business.

- **Confidential.** On average, fewer people will see a taxpayer's account information with Direct Deposit than with paper checks.

Treasury will not honor Direct Deposit requests made by persons who owe individual or business taxes or have another State or federal debt that would result in their refunds being offset. This includes third-party debts such as child support, garnishments, or levies.

Michigan is not responsible for the misapplication of a Direct Deposit that is caused by error, negligence, or malfeasance on the part of the taxpayer, ERO, transmitter, software developer, financial institution, or any of their agents.

The authorization for Direct Deposit is voluntary and must be renewed yearly.

An e-filer who functions as an ERO must:

- Ensure the taxpayer is aware of the general information regarding a Direct Deposit.

- Not charge a separate fee for Direct Deposit.

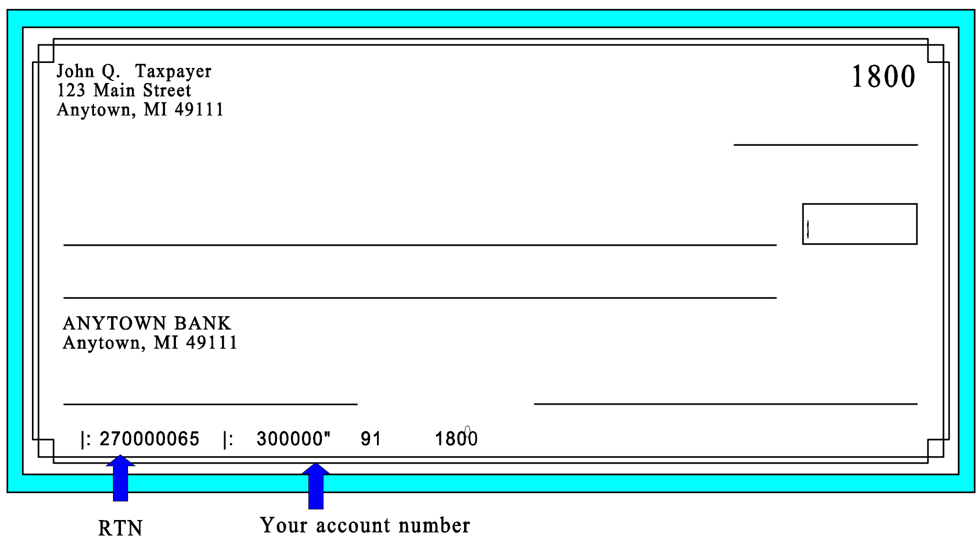
- Accept a Direct Deposit election to the financial institution designated by the taxpayer.

Note: Some smaller financial institutions may not accept Direct Deposit payments. The taxpayer or ERO should contact the financial institution to verify its capability to accept Direct Deposit transfers if unsure of the financial institution's Direct Deposit capabilities.

- Ensure that a taxpayer electing Direct Deposit meets the eligibility requirements. The taxpayer must provide proof of account from the financial institution the taxpayer designates to receive the Direct Deposit. This information is best obtained from official financial institution records, account cards, checks, or share drafts that contain the taxpayer's name and address. The account must be in the taxpayer's name.

- Direct Deposit requests associated with a foreign bank account are classified as IAT. If an income tax refund Direct Deposit is forwarded or transferred to a financial institution in a foreign country, the Direct Deposit will be returned to Treasury. If this occurs, the refund will be converted to a check (warrant) and mailed to the address on the tax return. Taxpayers should contact their financial institutions for questions regarding the status of their bank account.

- Verify the Direct Deposit information on Form MI-1040 or 3174 (if a paper filing becomes necessary) is correct and is the information transmitted with the electronic portion of the return.



Note: The RTN and account number may appear in different places on your check

- Enter the number from left to right and leave unused boxes blank. Include hyphens but omit spaces and special symbols. The Routing Transit Number (RTN) is usually found between these symbols: **|: and |:**. The sample check above shows where the RTN and account number may appear.

- The RTN must be nine digits. If the first two digits are not "**01**" through "**12**" or "**21**" through "**32**," the Direct Deposit will be rejected and a refund check will be sent to the address as filed on the return.

- Michigan tax preparers may recognize a valid Michigan RTN because it generally begins with "07" or "27," which is the Federal Reserve District that Michigan is in. "07" is for banks and "27" is for credit unions. Upper Peninsula banks may have "09" or "29."

- Ensure the Direct Deposit of refund for Michigan is not deposited in an RAL account for the federal refund.

Important! Advise the taxpayer that once an electronic return has been accepted for processing by the State, the Direct Deposit election cannot be rescinded. The RTN of the financial institution or the bank account number cannot be changed.

If Form MI-1040CR-7 is filed, it is important that box 5 (Are heating costs included in rent?) be clearly marked either Yes or No. Box 5 should be marked **Yes**, if:

- Heating costs are currently included in rent, or
- Heat service is in someone else's name.

When marked **Yes,** the taxpayer will receive a refund and may choose Direct Deposit instead of receiving a paper check.

If box 5 is marked **No,** a State of Michigan energy draft will be issued. Energy drafts must be redeemed at the taxpayer's utility company; therefore, Direct Deposit is not available.

Problems With Direct Deposit

If Treasury is unable to honor a request for Direct Deposit, a refund check (warrant) will be mailed to the taxpayer's address on the return. Following are some reasons for not honoring a Direct Deposit request:

- The taxpayer's account was closed after the Direct Deposit request was submitted.

- The taxpayer asked to have the refund deposited into a foreign financial institution or foreign branch of a U.S. financial institution. The State of Michigan can only make Direct Deposits to accounts in U.S. financial institutions that are located in the United States.

- The taxpayer or spouse owes a debt to the State of Michigan or to a third party that requires the State to retain all or part of the refund. Treasury must satisfy this debt before issuing any remaining refund. Examples of third-party debts include child support arrearages and debts covered by a garnishment served against the refund or credit. If this situation occurs, the taxpayer will receive a letter stating the refund amount and to which debt it was applied. Depending upon the amount of the debt, there could be no remaining refund.

- The financial institution returns the Direct Deposit because an incorrect RTN or account number was entered on the electronic record.

Treasury limits the number of deposits that can be made into any one account. Therefore, Michigan is not able to process returns when a refund is deposited into the Rush Visa Card account referenced at *www.rushcard.com/index.aspx*. Participation in this program would significantly delay clients' refunds.

Any assistance in discouraging taxpayers from participating in the Rush Visa Card program in Michigan would be appreciated. If the volume of accounts using this service is too large, Treasury would have to look at the possibility of issuing paper refunds to any returns with this account number listed on the return. Treasury appreciates all cooperation in this matter.

Important! Taxpayers should review their monthly statements or contact their financial institutions for Direct Deposit verification. When attempting to locate a Direct Deposit, taxpayers should request their financial institutions research savings, checking, or other accounts before contacting their tax preparers or Treasury.

APPENDIX

Table A	2011 Home Heating Credit Standard Allowance
Table B	Exemptions and Maximum Income for the Alternate Credit Computation
	2011 Income Tax Forms and Instruction Booklets

TABLE A
2011 Home Heating Credit Standard Allowance

Your Exemptions (from line 11i)	Standard Allowance	Income Ceiling
0 or 1	$420	$11,986
2	$567	$16,186
3	$714	$20,387
4	$861	$24,587
5	$1,009	$28,815
6	$1,156	$33,014
	+ $147 for each exemption over 6	+ $4,200 for each exemption over 6

TABLE B
Exemptions and Maximum Income for the Alternate Credit Computation

Your Exemptions (from line 11i)	Maximum Income
0 or 1	$12,973
2	$17,458
3	$21,946
4 or more	$22,782