

**Michigan Tax Preparer Handbook for  
Electronic Filing Programs**

**2013**

**Individual Income Tax E-file**



*Michigan Department of Treasury*  
*[www.MIfastfile.org](http://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](http://www.MIfastfile.org). For questions about the e-file program, contact Michigan Forms, Documentation and E-file Services (FDES).

Contact information is for **tax preparers and software developers only** and enables Treasury to provide better service to authorized e-file providers. **Please do not give these numbers to taxpayers.** The FDES staff is unable to provide return status information, or address specific taxpayer account issues. 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 also discuss return situations with the tax preparer if the appropriate authorization box has been completed on the return.

Forms, Documentation and E-file Services Manager	Darron Birchmeier
Testing and File Specifications	Nancy Agostini Mark Chambers Heather Vellanti
E-Mail	<a href="mailto:MIefile2D@michigan.gov">MIefile2D@michigan.gov</a>
Telephone (Monday-Friday, 8.a.m. to 5 p.m. EST)	(517) 636-4450
Michigan Relay Service	(800) 649-3777 (TTY only)
Fax	(517) 636-4378
Treasury Web Sites	<a href="http://www.michigan.gov/taxes">www.michigan.gov/taxes</a> <a href="http://www.michigan.gov/treasury">www.michigan.gov/treasury</a> <a href="http://www.MIfastfile.org">www.MIfastfile.org</a>
Internal Revenue Service (IRS) e-help Desk (Authorized e-file Providers only)	(866) 255-0654
IRS Tax Help Line (individuals only)	(800) 829-1040

Treasury does not recommend sending account-specific information over the Internet. Federal and State disclosure laws require that taxpayer privacy and confidential records 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. Sign up to receive electronic communications on Treasury's e-file programs and other information of interest. To subscribe or for additional information, visit the Tax Preparer's Web site at [www.Mifastfile.org](http://www.Mifastfile.org).

### **E-file Resources**

Visit [www.Mifastfile.org](http://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 total household resources
- Filing status

### **Internet Options**

Visit [www.michigan.gov/incometax](http://www.michigan.gov/incometax) to find the following information:

- Current year forms and instructions
- Answers to many tax preparation questions
- Most commonly used tax forms
- Free assistance in preparing tax returns
- Retirement, Pension, Interest, Dividends, Capital Gain Estimator
- Other tax resources

Visit [www.michigan.gov/iit](http://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

The 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
- Check the status of a letter sent to Treasury
- Request information on estimated payments
- Order current tax year forms

E-file returns are processed faster than paper returns. Allow 14 days before checking the status of the return by visiting [www.michigan.gov/iit](http://www.michigan.gov/iit) and clicking on "Check My Income Tax Info."

## CHAPTER 2 INCOME TAX

### BENEFITS OF INCOME TAX E-FILE

**Expanded services offered.** E-file is a valuable addition to a tax preparers' list of client services, which can mean more clients. In addition, prospective clients can find an authorized e-file provider at [www.irs.gov](http://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/iit](http://www.michigan.gov/iit) 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 the tax preparer enters into the computer. Treasury computers automatically check returns for mistakes. When easy-to-fix mistakes, like math errors or missing forms are found the return is sent back for correction. The error can then be fixed and be sent back to Treasury. This saves time and prevents a simple mistake from holding up a refund.

**Detailed error conditions.** Modernized e-file (MeF) business rules pinpoint the location of the error in the return and provide complete information in the acknowledgement file that is passed back to the transmitter. MeF business rules use simple wording to clarify each error that triggers a rejection. Treasury will provide up to ten business rule errors per return.

**Increased customer satisfaction.** Only tax preparers and their clients see the return. Tax information is encrypted and transmitted directly to the IRS and Michigan. Also, an acknowledgment is sent to verify the return was received and accepted for processing.

**Prior Year Returns.** Tax returns for 2011, 2012, and 2013 will be accepted during the 2014 processing year. MeF will accept the current tax year and two prior tax years.

**Portable Document Format (PDF).** MeF accepts PDF attachments with e-filed returns. (See page 16 for more information on attachments that will be accepted by Michigan.)

**Authorization to discuss.** Treasury staff can see immediately if the taxpayer has granted authorization to discuss the return with the tax preparer. The delays of ordering paper returns and mailing correspondence are eliminated.

## INTRODUCTION

Treasury has joined with the IRS to provide electronic filing of income tax returns. The Federal/State (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 Standalone e-file Program enables taxpayers to electronically file their state return separately from the federal return.

The Internal Revenue Service announced plans to open the IIT 2014 filing season on January 31 and encourages taxpayers to use e-file and Direct Deposit as the fastest way to receive refunds. In addition, many software companies are expected to begin accepting IIT returns in January and will hold those returns until the IRS systems open on January 31. The IRS cautioned that it will not process any IIT returns before January 31, so there is no advantage to filing on paper before the opening date. Taxpayers will receive their tax refunds much faster by using e-file with the Direct Deposit option.

Michigan anticipates retrieving and acknowledging IIT e-file returns on the same day the IRS opens for e-file. E-filing and choosing Direct Deposit is the fastest way to receive your Michigan refund. However, Michigan will be ready to process IIT returns and will begin making updates to Michigan's IIT self-service on January 22.

E-filing is still the most efficient way to file your federal and Michigan IIT returns. The IRS mandates preparers filing 11 or more IIT returns to e-file those returns, with minor exceptions. Michigan would expect any preparer e-filing federal IIT returns to also e-file the Michigan IIT returns.

The *Michigan Tax Preparer Handbook for Electronic Filing Programs 2013* (Michigan Handbook) follows the same format as IRS *Publication 1345 Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns (Publication 1345)*. The Michigan Handbook sets forth items that are unique to Michigan. The Michigan Handbook should be used in conjunction with *Publication 1345* and the 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 2013

Tax Rate	4.25%
Personal Exemption	\$3,950
Special Exemption for Disabled	\$2,500
Qualified Disabled Veteran Deduction	\$300
Senior Dividend, Interest, and Capital Gains Deduction	
Single Filer (not available to seniors born after 1945)	\$10,767
Jointly Filed (not available to seniors born after 1945)	\$21,534

### **E-file Requirements**

To optimize operational efficiency and improve customer service, Treasury mandated e-file of IIT returns.

Tax preparers who complete 11 or more income tax returns are required to e-file all eligible returns. Software developers producing tax preparation software or computer-generated forms must support e-file for all Michigan income tax forms that are included in the software package.

### **Michigan Standard Deduction**

Filers born in 1946, or where the older spouse was born in 1946 if filing a joint return, are eligible for a deduction against all income and will no longer deduct pension and retirement benefits. The deduction is \$20,000 for a return filed as single or married, filing separately, or \$40,000 for a married, filing jointly return. The standard deduction is reduced by any military retirement benefits due to service in the U.S. Armed Forces or Michigan National Guard, or taxable railroad retirement benefits reported on *Additions and Subtractions* (Schedule 1), line 11 and any military pay included on Schedule 1, line 14.

If the primary filer or spouse qualifies as Social Security Act (SSA) exempt the standard deduction is increased by \$15,000. If both the primary filer and spouse qualify as SSA exempt, the standard deduction is increased by \$30,000.

### **SSA Exempt**

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

Recipients born between January 1, 1946 and December 31, 1952 who receive pension or retirement benefits from employment with a governmental agency that was not covered by the federal SSA are entitled to a greater retirement/pension deduction or Michigan Standard Deduction. If the primary filer or spouse is SSA exempt this increases their maximum allowable deduction by \$15,000.

### **Pension Limitations Based on Date of Birth**

Pension and retirement benefits are taxed differently depending on the age of the recipient. Married couples filing a joint return should complete the *Michigan Pension*

*Schedule* (Form 4884) based on the year of birth of the older spouse. Military and Michigan National Guard pensions, Social Security benefits, and railroad retirement benefits are exempt from tax and should be reported on the *Michigan Schedule 1*, line 11 or line 14.

- Recipients born before 1946 may subtract all qualifying pension and retirement benefits received from public sources, and may subtract qualifying private pension and retirement benefits up to \$48,302 if single or married filing separate, or \$96,605 if married filing a joint return. If their public retirement benefits are greater than the maximum amount they are not entitled to claim an additional subtraction for private pensions. In addition to public benefits, the private pension limits are also reduced by military retirement from the U.S. Armed Forces, Michigan National Guard, and taxable railroad retirement benefits.
- **Recipients born in 1946**, do not complete Form 4884. See lines 23 and 24 of the *Michigan Schedule 1*.
- **Recipients born during the period 1947 through 1952** will be able to deduct up to \$20,000 in qualifying pension and retirement benefits if single or married filing separate or up to \$40,000 if married filing a joint return. Generally, all pension or retirement benefits (public and private) are treated the same unless the recipient also has significant benefits from service in the U.S. Armed Forces or Michigan National Guard, or receives taxable railroad retirement benefits. Recipients who deduct military retirement benefits due to service in the U.S. Armed Forces, Michigan National Guard, or taxable railroad retirement benefits on Schedule 1, line 11 may have lower deduction limits if these deductions total more than \$28,302 on a single return or \$56,605 on a joint return.
- **Recipients born after 1952**, all pension and retirement benefits are taxable and recipients are not entitled to a pension subtraction.

Filing Status	Birth Year	Retirement Benefits Tier	Retirement Benefits Deduction Limits
Single/Separate	Before 1946	Tier 1	All public plus private benefits up to \$48,302 combined
Single/Separate	**1946-1952	Tier 2	\$20,000
Single/Separate	After 1952	Tier 3	No deduction
*Joint	Before 1946	Tier 1	All public plus private benefits up to \$96,605 combined
*Joint	**1946-1952	Tier 2	\$40,000
*Joint	After 1952	Tier 3	No deduction

\* On a joint return, determine the eligibility for deducting retirement benefits using the age of the older spouse.

\*\* Taxpayers born in 1946 do not deduct retirement benefits but are eligible for the Michigan Standard Deduction. See *Michigan Schedule 1*, line 24 instructions.

## **Same-Sex Couples Filing A Joint Federal Return**

Same-sex couples who file a joint federal income tax return must continue to file income tax returns for Michigan with each individual using the single filing status. Michigan has defined marriage in the Michigan Constitution as a union of one man and one woman.

Each individual who has income attributable to Michigan and who has filed a joint return with the IRS as a same-sex couple should separately report Adjusted Gross Income (AGI) for Michigan income tax as a single filer. Each individual should recalculate their federal AGI as if they had filed a single federal return, and be aware that filing as single may affect the filer's eligibility for Michigan tax credits, as well. Treasury will provide a worksheet on its Web site that can be used to recalculate income.

## **New Voluntary Contribution Funds**

### **ALS of Michigan (Lou Gehrig's Disease) Fund**

ALS of Michigan - Lou Gehrig's Disease is dedicated to helping pALS (person with ALS), their families, and caregivers live life as fully as possible. We meet our mission through a full complement of critically needed programs including: support groups, workshops and seminars; durable medical equipment loan closet; augmentative and alternative speech services; Respite Care Assistance program; professional social work services; information and advocacy services for pALS; and much, much more.

### **Alzheimer's Association of Michigan**

The Alzheimer's Association of Michigan offers life changing support to the nearly 200,000 Michigan individuals and families living with Alzheimer's disease and other dementias. Services include a 24/7 hour helpline, education to professional and family care partners, support groups, care consultations, early stage programming, advocacy and information, and referral services. Safety services are also offered, including Safe Return/Medic Alert and Comfort Zone.

### **AMBER Alert Fund of Michigan**

In the aftermath of the 1996 kidnapping and murder of 9-year-old Amber Hagerman in Arlington, Texas, an emergency plan was created to quickly recover abducted and endangered children. In 2001 the Michigan AMBER Alert program was launched. The program was developed through the cooperation of the members of the Michigan State Police, the Michigan Association of Broadcasters, the Michigan Association of Chiefs of Police, the Michigan Sheriff's Association and the Michigan Department of Transportation. It is inspired by and dedicated to the memory of Amber Hagerman and has helped to recover over 300 children in Michigan.

### **Filing Extension for Military Personnel Serving in a Combat Zone**

United States military personnel serving in a combat zone on April 15, 2014, 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. Visit [www.michigan.gov/taxes](http://www.michigan.gov/taxes) for more information.

### **General Information**

Information from the W-2 and 1099 forms is entered in the software and transmitted with the e-file return. **W-2 and 1099 forms should not be mailed to Treasury.** The *Withholding Tax Schedule* (Schedule W) should be provided to the taxpayer with the printed copy of the return. Taxpayers claiming Flow-Through Withholding (FTW) are not eligible for e-file.

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 Treasury. 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 federal returns should enter “Federal Extension granted to MM-DD-YYYY” in the Michigan Preparer Notes.

## KEY DATES AND REFERENCE INFORMATION

### Michigan Income Tax Electronic Filing Calendar

For Tax Year January 1, to December 31, 2014:

**Note:** Dates are subject to change.

Electronic Return Acceptance Period	Identical to the IRS
Transmitting Returns to the IRS and Treasury	Identical to the IRS
Michigan Begins Processing Returns	January 22, 2014
<i>Individual Income Tax e-file Payment Voucher</i> (MI-1040-V) Payments Due	April 15, 2014
Deadline to File <i>Home Heating Credit Claim</i> (MI-1040CR-7)	September 30, 2014
Deadline to Transmit Michigan Returns Electronically	Identical to the IRS

### State Program Data

#### **Acknowledgment System**

IRS State Acknowledgment System	1-866-255-0654 or <a href="http://www.irs.gov">www.irs.gov</a>
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#### State Program Description

Type of e-file Program	Fed/State and State Standalone
Number of State Taxpayers	5 million
Fed/State e-file Returns (2012)	3.7 million
E-File Refund Timeframe	Faster refunds for e-file returns
Paper Refund Timeframe	Considerably longer
Average State Refund (2012)	\$446.23
Direct Deposit	Yes
Balance Due Returns	Yes
Direct Debit/Automatic Fund Withdrawals	No
Michigan Signature Required	No-Fed/State (linked) Yes-State Standalone (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](http://www.irs.gov)**

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

*Publication 1346 Electronic Return Specifications and Record Layout for 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](http://www.Mifastfile.org)**

*Michigan Tax Preparer Handbook for Electronic Filing Programs 2013* (Publication 3015)

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

*Michigan Individual Income Tax e-file Payment Voucher* (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 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.

**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 the State submission.**

## **How State Standalone (unlinked) Electronic Filing Works**

The federal return does not have to be e-filed and accepted before e-filing the State Standalone 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 Standalone e-file program if it is supported by their software. Tax preparers will have to indicate in their software that it is a State Standalone 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 Form MI-1040-V by April 15, 2014. 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 individuals who have been accepted into the federal e-file program and who transmit returns to an IRS Service Center. The IRS mandates 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](http://www.irs.gov) for more information.

To participate in Michigan’s Fed/State and State Standalone e-file programs, e-filers must use software that has successfully completed the IRS and Michigan ATS. 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 Returns**

The following forms and schedules can be e-filed:

<b>Form/Schedule</b>	<b>Title</b>
MI-1040	Individual Income Tax Return
MI-1040CR	Homestead Property Tax Credit Claim
MI-1040CR-2	Homestead Property Tax Credit Claim for Veterans and Blind People
MI-1040CR-5	Farmland Preservation Tax Credit Claim
Schedule CR-5	Schedule of Taxes and Allocation to Each Agreement
MI-1040CR-7	Home Heating Credit Claim
4976	Home Heating Credit Claim MI-1040CR-7 Supplemental
MI-2210	Underpayment of Estimated Income Tax
MI-1040D	Adjustment of Capital Gains and Losses
MI-8949	Sales and Other Dispositions of Capital Assets
MI-1040H	Schedule of Apportionment ( <b>e-file limited to six occurrences</b> )

Form/Schedule	Title
MI-4797	Adjustments of Gains and Losses From Sales of Business Property
Schedule 1	Additions and Subtractions
Schedule NR	Nonresident and Part-Year Resident Schedule
4013	Resident Tribal Member Annual Sales Tax Credit
4642	Voluntary Contribution Schedule
4884	Pension Schedule
4973	Pension Continuation Schedule
3174	Direct Deposit of Refund

**Note: Information from the W-2 and 1099 form is entered in the software and transmitted with the e-file return. Do not mail W-2 and/or 1099 forms to Treasury. All W-2 and 1099 information, when applicable, is required when submitting a State Standalone return.**

IIT forms, line reference, and filing conditions where PDF attachments are accepted by Michigan:

Form	Line	Description	File Name	Required
MI-1040	18	Other State Returns	OtherStateReturn.pdf	No
All Forms		Power of Attorney	POA.pdf	No
MI-1040CR	22	Custodial Party End of Year Statement	FEN851.pdf	No
MI-1040CR-2	21			
MI-1040CR-7	24			
All Forms		MI-1310	MI-1310.pdf	No*
MI-1040CR	6c	Married, Filing Separately Worksheet	MI5049.pdf	No
MI-1040CR-2	5c			
MI-1040CR-7	5c			
Schedule 1	22	Claiming Michigan subtraction for federal Schedule R but not required to include Schedule R with federal return.	FedSchR.pdf	No

\*See note in Exclusions from E-file Section regarding the MI-1310.

If it becomes necessary to supply Treasury with a paper copy of the return and the supporting documents, it must be assembled as noted in the MI-1040 Instruction Booklet including Form MI-8453, if applicable, attached last. Form MI-1040CR-7 should not be stapled to the return. 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 6 of the MI-1040 Instruction booklet.

## **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.

<b>Form</b>	<b>Title</b>
MI-1045	Application for Michigan Net Operating Loss Refund
4	Application for Extension of Time to File Michigan Tax Returns
MI-1310	Claim for Refund Due a Deceased Taxpayer

**Note: Michigan will accept e-file returns for deceased taxpayers. If a U.S. 1310 is required, that data must be included within the federal folder of the Michigan e-file return. When e-filing on behalf of a single, deceased taxpayer with a balance due federal return and a refund Michigan return, the Michigan return can be e-filed and the U.S. 1310 or *Claim for Refund Due a Deceased Taxpayer* (MI-1310) and required documents included as a PDF attachment when supported by the software or mailed to Treasury.**

The taxpayer is **not eligible for e-file** for the 2013 tax year if:

- Filing returns or forms listed as excluded in *Publication 1345*
- Filing Form MI-1040 and any of the following apply:
  - 1) Prior year return(s) for tax year **2010** or prior.
  - 2) Not required to file a U.S. Form 1040 if filing Fed/State
  - 3) Filing *Farmland Preservation Tax Credit* (Form MI-1040CR-5) with more than 25 agreements.
  - 4) Filing Form MI-1040CR-5 using different total household resources than on the MI-1040CR, MI-1040CR-2, or MI-1040CR-7.
  - 5) Filing *Sales and Other Dispositions of Capital Assets* (MI-8949) with any of the following:
    - a. More than 36 short-term capital gains/losses.
    - b. More than 48 long-term capital gains/losses.
  - 6) Filing Form MI-4797 with **any** of the following:
    - a. More than 16 sales/exchanges of property held over one year.
    - b. More than 13 sales/exchanges of property held one year or less.
    - c. More than 17 gains from disposition of property under sections 1245, 1250, 1252, 1254, and 1255.
  - 7) Reporting FTW.
  - 8) Filing Schedule 1 and claiming the Michigan Standard Deduction on line 24 with a birthdate of 1/1/1947.
  - 9) Filing Schedule 1 and claiming both the Michigan Standard Deduction on line 24 and the dividend/interest/capital gain deduction on line 26 as the unremarried surviving spouse of someone born before 1946 who was at least 65 at the time of death.

- 10) Filing MI-1040CR with **all** of the following:
- a. Age 65 or older; or an unremarried spouse of a person who was age 65 or older at the time of death.
  - b. Deaf, hemiplegic, paraplegic, quadriplegic, or totally and permanently disabled.
  - c. Claiming the Alternate Property Tax Credit for Renters Age 65 and Older using MI-1040CR Worksheet 4.
- 11) Claiming a pension/retirement subtraction using form 4884 when the oldest of filer or spouse is born in 1946 and died during the tax year before reaching age 67.
- 12) Filing the following forms:

Form	Title
3581	Michigan Historic Credit
4534	Venture Capital Deduction Schedule
MI-1040X	Amended Michigan Income Tax Return (2011 and prior)
MI-1040X-12	Amended Michigan Income Tax Return (2012)
MI-1041	Fiduciary Income Tax Return

### **Nonelectronic Portion of Michigan Returns**

The nonelectronic portion of the 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 15, 2014, 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 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. Treasury may request at a later date a copy of the signed statement to verify the unequal distribution claimed.

## MICHIGAN E-FILE SIGNATURE PROCESS

### **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 Standalone Returns:**

State Standalone returns that are filed with or without Form MI-1040 can be signed using “shared secrets” or Form MI-8453 signature document. Shared secrets consist of the SSN(s), previous year’s AGI or total household resources, 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 total household resources 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 Standalone return can be retransmitted in this circumstance.**

The signed 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, they 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 chooses to complete Form MI-8453, it should **not** be mailed to Treasury. Volunteer tax preparers must provide taxpayers with the MI-8453 and instruct them to retain a copy with their tax records.

## **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 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 a Direct Deposit income tax refund 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 the total Michigan withholding claimed on Schedule W, line 3, agrees with the total Michigan tax withheld as reported on the 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 Federal Insurance Contributions Act (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 22 (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 14 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 2013 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 *Homestead Property Tax Credit Claim* (MI-1040CR).

Property taxes should not be estimated. Ad valorem taxes that were levied on the homestead in 2013, 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.

Homeowners are required to enter the taxable value on Form MI-1040CR, line 9.

Returns received without the taxable value for homeowners will be rejected on e-file business rule 201.

Verify the property taxes are entered on Form MI-1040CR, line 10.

Verify the rent paid on Form MI-1040CR, line 11, is equal to the monthly rent multiplied by 12, not the annual rent multiplied by 12.

*2013 Custodial Party End of Year Statement (FEN-851)* showing child support payments paid to the Friend of Court, enter the child support portion on Form MI-1040CR, line 22. A copy of FEN-851 should be included with the e-file return as a PDF attachment.

### **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.

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.

### **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 area for the State 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 Preparer Notes when supported by the software.

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

Federal Preparer Notes can contain up to 4,000 data characters. Michigan Preparer Notes can contain up to 150 characters. Information in Preparer Notes should be identified by the form and line number.

Examples of information that can be included in Preparer Notes:

- “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 property tax credit and/or home heating credit claim when two or more taxpayers are sharing a home
- How taxpayer met expenses when total household resources is very low
- 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
- 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. 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 Standalone 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 return data has been received. The Michigan acknowledgment is separate from the federal acknowledgment (Refer to IRS Web site for IRS rejection and error code explanation).

If a federal return is rejected, 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 15, 2014. Payments must be submitted with the MI-1040-V and postmarked no later than April 15, 2014.

## **Status Codes Received from 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.

### **Acceptance Status:**

- |                 |  |
|-----------------|--|
| <b>Accepted</b> | Electronic return was <b>accepted</b> and will be reviewed and processed. <b>All e-filed returns are subject to Michigan audit and can be delayed regardless of the status code given.</b>   |
| <b>Rejected</b> | Electronic return was <b>rejected</b> . If the Michigan return was rejected, a Rule Number which describes the reason for the rejection will be provided. If the Michigan return is rejected, it can be retransmitted as a State Standalone (unlinked) return. If the return was rejected the preparer may correct the error and retransmit the return. There is no limit on how many times a State Standalone (unlinked) return can be retransmitted. |

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

## **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. Tax preparers 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 15, 2014.

**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 Standalone e-file programs.

### **Program Compliance**

All e-filers must comply with the requirements and specifications set forth in IRS *Publications 1345*, and *1346*; the *Michigan Handbook*; and the *2013 Michigan Individual Income Tax Modernized e-File Software Developer Guide*.

### **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 2013 tax year, tax due returns will be considered timely filed if the original federal and Michigan returns have been transmitted on or before April 15, 2014.

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 2013 tax return has been accepted and acknowledged, the taxpayer must file Form MI-1040X-12 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/it](http://www.michigan.gov/it) 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 2013 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 their 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 Form 3174 (if a paper filing becomes necessary) is correct and is the information transmitted with the electronic portion of the return.

John Q. Taxpayer  
123 Main Street  
Anytown, MI 49111

1800

ANYTOWN BANK  
Anytown, MI 49111

|: 270000065 |: 300000" 91 1800

RTN                      Your account number

*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](http://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.